The Full-Employment Objective in Canada, 1945-85

Historical, Conceptual, and Comparative Perspectives

Robert M. Campbell

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Foreword

This study was originally undertaken as part of the Council's project on Unemployment Issues. In its 27th Annual Review, *Transitions for the 90s*, the Council discussed this subject. In addition, a compendium volume on the dimensions of Canada's unemployment is expected to come out in late 1991. The overall aim of this project has been to improve our understanding of the recent unemployment experience in Canada, particularly in the 1980s. The focus is on two major developments: the rising trend in, and the persistence of, unemployment.

In this study, Robert Campbell suggests that the issue of unemployment has had decreasing "'policy resonance" in recent years and seeks to explain why a political commitment to full employment has never been meaningfully operationalized in Canada. This explanation is pursued not in strictly economic terms, but in a broad historical, conceptual, and comparative investigation.

Campbell first establishes that Canada's 1945 commitment to the full-employment objective was a restrained one, tied to efficiency and freedom objectives rather than to equity and stabilization ones. This is shown to have been critical, inasmuch as it limited the institutional and cultural development of a firm full-employment commitment. A review of the key policy moments in the postwar period indicates that even this limited employment objective was not pursued with any degree of political vigour.

This historical experience is explained in two ways. First, the author illustrates the ways in which conceptual developments affected policy orientations to unemployment and, indeed, redefined the meaning of unemployment. In particular, the Keynesian notions of aggregate and involuntary unemployment did not survive the postwar experience mainly, he claims, as a result of the perception of policy failure. Unemployment came increasingly to be seen in personalized and voluntary terms. Campbell concludes that the later development of the concept of a natural rate of unemployment also weakened the emotional and political perception of unemployment, diminishing its policy resonance. The political commitment to maintaining high employment levels was further weakened when the costs of achieving this goal, particularly with respect to the tradeoffs with inflation and institutional change, became more apparent.

Second, the author compares employment policy in Austria, Germany, Japan, and Sweden with that of Canada, demonstrating that countries have varying capacities to pursue and realize the employment objective. The deeper employment commitment of these other countries is reflected in an extensive array of institutions and activist policies designed to combat unemployment. The author contends that Canada's weak operationalization of the employment objective has its source in a weak institutional commitment to this goal: the restrained Keynesian commitment in Canada is seen to have generated a low capacity to deal with unemployment and a reliance on passive policies, such as unemployment insurance.

Campbell concludes that Canada has been more inclined to use passive measures to deal with unemployment, rather than active and interventionist ones, because of a willingness to tolerate unemployment rather than initiate the institutional change required to operationalize the full-employment objective. In the end, he claims, the commitment to the full-employment objective is a matter of political will and institutional commitment.

This study gives a lively and insightful sense of Canada's employment policy experience. It also suggests where Canada might go in altering its approaches to the full-employment objective.

The Economic Council of Canada's project on Unemployment Issues is led by Surendra Gera, with the guidance of Harvey Lazar, Deputy Chairman. The author of this study, Robert Campbell, has written numerous articles and books on Canadian political economy and public policy, including his 1987 book *Grand Illusions: The Politics of the Keynesian Experience in Canada, 1945-75*. He is a member of the Political Studies Department at Trent University.

Judith Maxwell
Chairman

Preface

This monograph was prepared under contract with the Economic Council of Canada's Unemployment Issues Group, whose work substantially informed Chapter 3 (Unemployment and Adjustment) of the Council's 27th Annual Review, *Transitions for the 90s* (1990).

The author wishes to acknowledge Syed Sajjadur Rahman and especially Surendra Gera for their helpful comments and support. Critical evaluations and constructive suggestions were also made by many commentators on earlier versions of the monograph, and these assessments were much appreciated. Magnus Ryner was an examplary research assistant, enthusiastic, hard-working, and insightful. Of course, the author is fully responsible for the contents of this study. Further comments are welcome and may be sent to Dr. Surendra Gera, Project Leader, Unemployment Issues Group, at the Economic Council of Canada, P.O. Box 527, Ottawa, Canada, K1P 5V6.

The author dedicates this work to the memory of the late Senator Maurice Lamontagne. A distinguished social scientist and far-sighted political adviser, Senator Lamontagne was the lead minister when the Pearson government established the Economic Council of Canada in the early 1960s. The author enjoyed a fruitful but all-too-short collaboration with Senator Lamontagne on the study *Business Cycles in Canada* (Canadian Institute for Economic Policy, 1984).

Introduction

> Thus we see that the evolution of knowledge and belief about unemployment has led to the increased recognition of its complexity and of the tradeoffs between employment and other goals. The commitment to full employment devised in the 1945 White Paper on Employment and Income has gradually given way to the realization that policy makers must pay attention to the goal of achieving both high employment levels and price stability. The degree to which unemployment results in economic hardship, the extent to which it represents a waste of human resources, and the proportion in which it is involuntary are questions that continue to be debated extensively, and the Commission can draw no simple conclusions concerning them.
>
> Commissioners recommend to labour, business and government that they consider some form of incomes policy, coupled with supportive monetary and fiscal action, to increase employment. Without such a comprehensive approach, reduction of unemployment to the level of 6.5 to 8 per cent may be a lengthy and difficult process. Furthermore, without such demonstration of political will by all major groups in society, and by individuals as well, the prospects for undertaking major structural changes to reduce unemployment below 5 per cent would appear to be less bright. This basic challenge of political will is the central determinant of improved economic performance. (Royal Commission on the Economic Union and Development Prospects for Canada, volume 2, p. 285; volume 3, p. 435.)

Is unemployment more politically acceptable now than it was in the immediate postwar period? Does unemployment have the same economic and political resonance and meaning as it did in the 1940s and 1950s? Should there be a "full employment objective," and should it be the overriding policy objective?

Intuitively, it would appear that unemployment is indeed more politically acceptable now than in the past. Unemployment levels over the past decade have been two to three times higher than in the 1950s and 1960s, despite Canada's impressive job-creation record relative to most other advanced countries. The quotations from the Macdonald Commission offer three avenues of exploring why this has been the case. In the first instance, *the concept "unemployment" has changed dramatically* over the last 40 years. In the immediate postwar period, unemployment was a rather simple and straightforward concept based on the widely accepted Keynesian notion that unemployment was a "macro" problem and the result of insufficiency of aggregate demand. Policy analysis and prescription were seen to be fairly straightforward, indeed, almost mechanical. The concept of unemployment has subsequently evolved into a far more subtle, complex, and controversial notion. A range of "explanations" of unemployment now compete with each other for policy-makers' attention and involve micro and macro, supply and demand considerations. After over four decades of experience in analysing and dealing with unemployment, the concept still appears to require further study. Analytical uncertainty has constrained policy responses to unemployment and made it more "acceptable" or open to rationalization.

Second, while unemployment dominated policy considerations after the war, a variety of *other policy objectives* have subsequently made their way onto the policy agenda. These objectives had equal or greater political priority, so they came to compete for policy-makers'

attention and commitment. In some cases (inflation is a particular case in point), a degree of unemployment was seen to be a necessary side effect of the realization of these other objectives. At times, then, a full-employment policy was seen to be incompatible with other top-priority items. Policy makers confronted a series of agonizing political tradeoffs, which had the effect of making it easier, indeed almost necessary, to "tolerate" unemployment in order to reach these other objectives.

Third, as the latter Macdonald Commission quote suggests, whether a society makes a commitment to "full employment" or not is a question of *political will*. For a variety of reasons, Canadian policy makers have made the political decision to pursue other goals and objectives – particularly the perpetuation of traditional political and economic arrangements. It became increasingly apparent that a full-employment policy would have required a series of policies and institutional changes out of character with Canadian historical experience. These policies and changes would have involved a far higher degree of government intervention in the economy and a network of collectivist and coercive institutions that policy makers (and perhaps society at large) would not have found attractive. This political choice is particularly apparent when comparing the Canadian experience to those of a number of European countries.

The purpose of this monograph is to review the political origins and development of the "full employment" objective in Canada in light of these considerations. The monograph will trace the changing conceptions of unemployment as influenced by various social, ideological, and technological factors. The study will proceed in four chapters, examining the full-employment objective in political historical terms, not strictly economic ones, focusing particularly on the social, political, and ideological factors.

The first chapter reviews the political and economic context in which the 1945 "full employment" objective was set. The study will describe and interpret the Keynesian policy commitment made in the White Paper on Employment and Income. The postwar Canadian employment policy record will then be reviewed, with special emphasis given to those periods when unemployment rose or remained high. Based on this empirical review, the second chapter will present the evolution of the concept of "full employment," to indicate the ways in which its meaning has become more complex and difficult to operationalize. The Canadian experience will then be compared with a number of countries, particularly Sweden. The purpose of this chapter is to illustrate the limited nature of Canada's institutional and policy commitment to full employment. A concluding chapter will synthesize the monograph's findings and offer some observations and implications of the analysis.

The monograph will draw the following conclusions:

1 Canada's employment commitment in 1945 was specific, limited, and tepid.

2 The character of this 1945 commitment substantially shaped the employment policy experience from 1945 on, by closing down certain policy options and limiting the institutional and cultural development of a full-employment commitment.

3 Over the long term, the pursuit of the 1945 commitment has shaped present political attitudes towards full-employment and policy alternatives.

4 Unemployment declined as the central and dominant policy issue, for two reasons:

- inflation developed as a primary policy issue and replaced unemployment as the major policy concern;

- the conceptual "disaggregation" of unemployment in various ways – voluntary vs. involuntary, cyclical vs. structural, and by qualitative and demographic categories – created conceptual and operational complications and challenges, which weakened the case for a full-employment policy.

5 The long-term diminution in importance of unemployment as a policy concern has reflected the absence of institutional developments in Canada to articulate a full-employment objective and develop the policy capacity to attain this objective.

6 At the end, decision makers have faced a policy tradeoff between high unemployment (with associated social security costs) and lower unemployment (requiring more direct government intervention). Generally, Canadian governments have chosen the former option (the "Dutch" option) over the latter (the "Swedish" option).

7 In broader terms, decision makers have been faced with the tradeoff between unemployment on the one hand and changes in political institutions on the other.

All policy issues have a normative dimension, and this is especially the case with regard to full employment and its definition. In the 1940s, employment came increasingly to be seen as a citizen's "right" which the state had an obligation to realize. In this sense, full employment implied a situation in which any citizen who wanted a job would be able to find one. In the 1980s, full employment has come increasingly to be identified with the natural rate of unemployment (NAIRU). The former definition was, to an extent, implicit in postwar government thinking, but was never made explicit or fully operationalized. The review of Canada's commitment to the full-employment objective is substantially the story of the move from the former to the latter orientation.

Should Canada have pursued the former approach? Would Canada's employment record have been better if it had? These are fundamental political questions which this monograph can ventilate but not answer. From the policy perspective, it is useful to review and understand why the "employment as a right" approach did not take hold in Canada, while it did in a number of other countries. This is interesting not simply as a matter of historical curiosity. This study attempts to demonstrate that Canada's present attitude towards unemployment and the political and institutional capacity to deal with it have been intimately shaped by the experiences of 1945 and after. In this way, an historical approach should not be seen as an exercise in "what might have been," but as a means of understanding precisely where we are and where we might go. It is from this perspective that the study proceeds.

1 The Historical Record

The "Full Employment" Commitment of 1945[1]

In this section, the study will first review the circumstances out of which evolved the Canadian government's postwar employment commitment. Then, the particular character of this commitment will be established. The purpose of this section is to establish the *limited* political nature of this commitment.

Unemployment Controversies: The Depression and World War II

The Canadian government's postwar employment commitment was shaped to a considerable extent by the experiences of the Depression of the 1930s and World War II.

During the decade of the Depression, there was increasing and radical criticism of capitalism's apparent inability to eliminate persistently high levels of unemployment. Prime Minister Bennett alluded to the "grave defects and abuses in the capitalist system," and his New Deal proposed "... to ensure to all classes and to all parts of the country a greater degree of equality in the distribution of the benefits of the capitalist system."[2] The Social Credit government in Alberta introduced a plan to change radically the financial dimension of the capitalist system. The increasingly popular CCF (the Co-operative Commonwealth Federation – the precursor to the New Democratic Party [NDP]) suggested that capitalism be replaced by a socialized, planned economy, with public ownership of transportation, communications, electrical power, essential industries, and financial institutions. Labour unrest increased, and 1937 was the worst year for industrial relations since the Winnipeg General Strike. To a great extent, the Depression experience caused an ideological rupture with the past and raised basic questions about politics and economics in Canada. The legitimacy of capitalism was challenged, and Canadians became increasingly inclined to think about a far greater degree of government intervention in the economy than in the past.

While World War II brought the Depression to an end, these fundamental questions were not resolved. In the first instance, there was widespread anxiety about the likelihood of a postwar depression. The government's Committee on Reconstruction predicted "rising unemployment, widespread dissatisfaction, postwar depression ... (and) the breakdown of the business system." In a famous phrase, C. D. Howe asked, "... what would happen when the boys and girls came home and war production had ceased?" A Wartime Information Board survey found the public's attitude towards the postwar period to be "... something akin to dread." The contrast between prewar depression and wartime "prosperity" was stark. The Committee on Reconstruction speculated that "it is hard to believe that Canadians will be satisfied with anything less than the opportunities for employment and relative security ... in these 'expanding' days of war." This was particularly the case, given that many people felt that economic and social security were precisely the things which Canadians had been fighting for.[3]

The challenge to capitalism thus continued as the war ended. As a prominent businessman noted, "The war has given private enterprise what may be its last chance to defend itself. If (it) fails ... after the war ... it will be replaced."[4] In the context of the pervasive anxiety about postwar economic prospects, private and public leaders sensed that Canadians were poised to accept non-capitalist approaches to economic matters. At the same time, the direct critics of capitalism had become better organized during the war. The trade union movement doubled its membership, both as a result of industrial expansion and Order-in-Council P.C. 1003 which had encouraged collective bargaining. There were 402 strikes involving 218,000 workers in 1943 – both records. The Committee on Reconstruction was concerned that rising unemployment after the war "will cause great labour unrest and a possible mass labour protest."[5] In the same year, the Canadian Labour Congress endorsed the CCF as the political arm of organized labour. The latter experienced a number of political successes during wartime. In 1944, the CCF formed the first socialist government in North America in Saskatchewan. It only narrowly lost the Ontario election to the Conservatives, 38 to 34 seats. The CCF topped the Gallup polls as the most popular political party in late 1943 and early 1944. The CCF's strength was a reflection of Canadians' critical view of capitalism and the war's legitimation of state economic planning.[6]

The perception of the CCF's rising strength affected the political outlooks of the traditional parties. The Conservatives' James Macdonnel argued that the party would have to change its policy orientation to win the postwar election, "rather than . . . the country have a red government." Given the CCF threat, it was argued that capitalism would have to be reformed: "Would you rather adopt a policy which will retain the largest amount of free enterprise or – hand over to the CCF? . . . I would say, 'half a loaf is better than no bread.'" Mackenzie King worried of the "danger of the Liberal Party being eliminated . . ." pointed out "CCF was gaining our ground." This required economic reform which "might save the country from falling into the hands of inexperienced men who also might head its affairs in the directions of a socialistic state."[7]

The CCF's political success and the Liberals' and Conservatives' reform orientation were reflections of the fact that the public had accepted the idea of increased government intervention in the economy. The wartime economic experience had legitimized the idea of economic planning and an increased role for the state in the economy. The war reinforced the ideological effects of the Depression, which had seen a serious undermining of the idea of the laissez-faire economy and the minimalist state. Public opinion surveys suggested that about half the population favoured a policy of nationalization. In 1941, 76 per cent supported economic controls, and 72 per cent supported government allocation of manpower. It also appeared that the public accepted the idea of union influence of this more active government more readily than it did the prospect of business influence.[8]

A political consensus emerged that democratic governments had the responsibility of ensuring the kind of economic stability and full employment that had been realized during the war years. The renamed Progressive Conservative Party constructed a policy platform that included jobs, social security, health care, education, and so on; the Liberal government committed itself to postwar planning for full employment and economic and social security.[9] This view of government responsibility for the economy represented a qualitative shift away from the past, politically and ideologically.

What remained to be decided at war's end – and what was far more controversial politically – was precisely *how* the federal government would choose to carry out this new responsibility. Would it move towards a socialized economy, as articulated by the CCF? Would it retain substantial parts of the extensive wartime administrative apparatus of regulations and controls? To what extent would capitalism and liberal democracy remain?

The 1945 Employment Commitment

As the government began to plan for postwar reconstruction, it received many reports and advisory studies. These suggested that mass unemployment could be avoided only by the continued use of wartime techniques such as economic planning and public investment. However, given wartime experience of controls, regulation, and bureaucracy, there were considerable reservations about the implications of economic planning for democracy and capitalism, freedom and efficiency. The government thus faced a tradeoff between economic planning/full employment on the one hand and capitalist democracy/unemployment on the other. The former emphasized equity and stability goals, while the latter emphasized freedom and efficiency. In the 1930s, these had appeared to be the only two options, and neither was particularly attractive to policy makers.

However, the advent of the Keynesian approach to economic management provided a series of intermediate points between these two extremes. While some countries adopted a fairly statist, interventionist variant of Keynesianism, Canada adopted what turned out to be the "mainstream" version of Keynesianism – at what appeared to be the midpoint in the tradeoff between planning and the market.

The government's postwar strategy was presented in two documents, the White Paper on Employment and Income and the Green Book proposals at the Dominion-Provincial Conference on Reconstruction.[10] These documents were informed by Keynesian reasoning and expressed the overriding political objective of the time: to maintain economic stability and high levels of employment. Even after the war had virtually eliminated unemployment, government officials remained obsessed with its prevention. This exclusive focus on unemployment tidied up and limited the political agenda. As early as the 1943 Throne Speech, the government stated that it had begun "to explore the international agreements and domestic measures which will help to secure adequate incomes for domestic producers for *full* employment after the war."[11] By 1945, though, the government's position had changed slightly, but significantly. In the original draft of the White Paper, its author, W. A. Mackintosh, specified the government's goal of full employment. However, C. D. Howe – the minister in charge of postwar reconstruction – insisted that the phrase "full" employment was unacceptable, for it would expose the government politically to something which it could not guarantee.[12] Instead, a softer – and more ambiguous – phrasing was adopted in the final version of the White Paper:

> The central task of reconstruction . . . must be to accomplish a smooth, orderly transition from the economic conditions of war to those of peace and maintain a *high and stable* level of employment. . . . In this paper, the Government has stated unequivocably its adoption of a *high and stable* level of employment and income as a major aim of employment policy.[13]

The contrast between "full" and "high levels" of employment illustrates clearly the character of the policy commitment made in 1945. This had profound policy consequences throughout the postwar period.

The White Paper's economic analysis and policy approach was built around Keynesian aggregate demand reasoning. This suggested that the level of employment was a function of the level of national income; unemployment was seen to be the result of an insufficient level of aggregate demand. As the White Paper put it,

> Remunerative employment and income are produced by the expenditures which are made. These expenditures are best classified according to the channels through which the expenditures flow, viz. (a) export trade . . . (b) private investment . . . (c) consumption expenditures . . . (d) public investment.

The government's task would be to ensure that each element of aggregate demand be large and stable.[14] While the White Paper did note the issue of supply factors and their relation to the level of employment, this line of analysis was not developed, and policy suggestions were presented in a supplementary, minor role. As will be seen presently, aggregate demand reasoning suggested that a high level of employment did not presuppose the existence of any specific array of supply conditions. As long as high levels of aggregate demand existed, supply and other factors would look after themselves. Hence, the White Paper did not present the government with the responsibility for directly shaping supply conditions such as the labour market, technology, or patterns of investment.

The White Paper reflected a Keynesian approach which entailed a *low level* of government control and a commitment to the perpetuation of the market economy. It expressed an optimism in the capacity of private enterprise to be induced by Keynesian policies to generate high levels of employment. This can be seen in the tactics which the White Paper proposed to be used in attaining a high level of employment.

First, the White Paper declared that

> the postwar problem is not to be solved by huge expenditures on public works. . . . The government does not believe it to be either desirable or practicable to look to the expansion of government enterprise to provide, to any large degree, the additional employment required.

Instead, a more modest approach to the use of countercyclical public works was envisioned, in the form of a "shelf" of public works, to be operationalized only when weakening aggregate demand conditions warranted their use. The government thus rejected an employment policy which would involve large amounts of government spending, huge public works, takeovers of private industry, or state economic planning.[15]

Second, private investment was not to be placed under the direct control of the government; rather, it was proposed that the government withdraw from the market and make room for private enterprise. The White Paper encouraged full and quick decontrol of the wartime economy and broad inducements to the private sector. It proposed to create an indirect – as opposed to controlling – relationship between government and business, by creating an economic environment in which there were healthy profit expectations:

> The decision to invest private funds in capital goods will depend on the businessman's view of the prospective margin of profit to be made on the investment. The demand for consumption goods will be high and everything which the government is doing, and plans to do, to enlarge external markets and increase and stabilize consumer income will contribute to the profitableness of new investment.

Coupled with this "environmental" role, the White Paper proposed that the government act to "reduce taxation as rapidly as possible (and) develop its fiscal policy so as to encourage the increase of private investment." Similarly, it proposed that the government continue to pursue an expansionary monetary policy.[16] Thus the White Paper assigned a limited role to government on the investment front. It was not to undertake huge investment projects, nor was it to regulate and direct investment through coercive controls. Rather, the government was to play the indirect role of influencing private investors in order to maintain a steady and large flow of private investment.

Third, the government committed itself to keeping the export sector of the economy strong, although it admitted that the flow of income associated with foreign trade was not particularly amenable to (Keynesian) influence: "The conditions under which postwar trade can reach higher levels than before are not, in any large degree, under the direct control of the Canadian government." The White Paper proposed that the government continue its efforts to liberalize trade via international economic collaboration.[17]

Fourth, consumption was seen as that component of aggregate demand which the government could most easily and effectively manage. Social security measures were seen to be potential agents in the war against recession and

economic instability. A number of measures had already been put in place, including Unemployment Insurance (UI) and Family Allowances, and the White Paper proposed that the government establish programs in the area of pensions and health insurance. The great appeal of social security measures was their simultaneous humanitarian and economic impact.[18] In all of this, the anticipated degree of "economic redistribution" was all but marginal. Many of the programs were self-financing or intended to be financed substantially by the maintenance of employment and income. These measures were not planned to increase the role of the government in the economy to any great extent. Indeed, they were mooted precisely as a way to avoid having to increase the role of the state in the economy.

Finally, the specific flows of national income would be influenced by government fiscal policy. The government proposed to

> budget for a cycle rather than for any one fiscal year. . . . The government will design both its spending policies and its tax policies throughout the cycle to levelling out the deflationary valleys and inflationary peaks. . . . The modern government budget must be the balance wheel of the economy.[19]

None of these five tactics to maintain employment and income involved coercive measures. None of them extended the role of the government into the economy to any considerable extent. Very little in the way of institutional change was proposed. Policy measures proposed to free the market rather than control it. Indeed, the postwar commitment involved a commitment to revitalize capitalism. The White Paper stated that

> it did not believe it to be either desirable or practicable to look to the expansion of government enterprise to provide, to any large degree, the additional employment required. It follows that a major and early task of reconstruction is to facilitate and encourage an expansion of private enterprise.[20]

The 1945 commitment did not weaken the Canadian faith in capitalism or its institutions. Indeed, to the extent that it undermined the arguments for public ownership and state control of the economy, it actually strengthened the legitimacy and viability of capitalism. The retention of the market system required that economic processes continue to be decentralized, with governments not involved in extensive and detailed decisions about economic matters. By limiting the extent and range of politico-economic decision making, no new institutional or bureaucratic mechanisms were seen to be needed to carry out the employment commitment.

These features of the postwar commitment rested on the specific technical features of Keynesianism in Canada, which suggested that unemployment was the result of an insufficiency of demand. In order to ensure that unemployment did not arise, governments were to initiate policies that ensured the maintenance of an adequate level of demand. The components or flows of demand were abstract or aggregated categories and, in acting to ensure adequate levels of demand, governments would be manipulating *aggregate* or macro units. Both analysis and policy were indifferent about the detailed composition of these components. Analysis and policy would be general or macro-oriented, *not* specific or micro-related. Governments would not have to evaluate or consider the kinds of employment to be perpetuated or the character or direction of the individual components of aggregate demand. Policy measures would be inducements, not orders. Specific micro-interventions to ensure a certain mix of employment patterns or to attain certain patterns of demand conditions would not be required. Employment measures would be limited to generalized, macroeconomic management of national income, requiring broad inducements to one or more of these generalized components. On the other hand, analysis and policy focused on demand conditions, and the supply side was more or less a matter of indifference. It was not suggested that a specific set of supply conditions was a necessary prerequisite for the attainment of full employment. Economic policy would be directed to ensuring the fullest possible use of economic capacity, not to tinkering with that capacity. These were matters that individual market decisions would determine. It was anticipated that as long as a sufficient level of demand existed, the levels of employment and income would look after themselves in the market.

There were dramatic political consequences that followed these "technical" matters. First, class and ideological issues were defused. Unemployment was seen to be the result of the insufficiency of aggregate demand, a technical matter that could be dealt with by technical means. Moral and ideological controversies were put to the side, and capitalism was absolved of blame for the Depression. No class was "blamed" for the Depression, and all classes seemed to benefit from the postwar approach which appeared to be in the interests of all. Capitalists were offered market-based economic stability, no increase in public ownership, no economic planning, low taxes, and low interest rates. Labour was offered rising income, employment, economic and social security and stability. All groups and classes would appreciate an end to wartime controls and regulations.

The defusion of the idealized, politicized context for the discussion of economics was the result of the highly rationalist character of the postwar program. Analysis and policy appeared essentially to be "technical" and routine, more akin to the world of accounting than to the world of

politics. The Keynesian approach seemed to be a matter of common sense and pragmatic routine. The emphasis on technique ensured that the application of the program would have few institutional implications. Keynesian techniques would be exercised out of existing departments of government. There would be no need for planning boards or regulatory bodies, as there would be no extra planning or regulations. Similarly, as economic management would be carried out by the experts, there would be no call for active public participation in decision making. Indeed, despite labour's apparent political strength at war's end, it did not gain any political power in this program. Uncertainty was to be socialized, not private investment decisions. Labour in effect traded off its call for public ownership and a place in production and economic decision making in return for distributional gains (via social security and increased employment). Parliament would at most be called upon from time to time to sanction the policy results reached in the bureaucracy.

In sum, what political involvement the government would have in the economy would be based on pragmatic considerations. A rationalist outlook on economic matters allowed the authorities to be confident that the bureaucracy had the knowledge, capability, and experience to understand and stabilize the economy. This laid the basis for an apolitical approach to economic matters, which would have very little impact on Canada's political institutions and practices. A degree of economic and social democracy may have been extended to the population at war's end, but it would be received passively.

The Canadian "full employment" commitment of 1945 was thus a timid and restrained one, in which the government made a limited commitment to perpetuating "high" levels of employment. This limited policy commitment has not subsequently been extended (see the following section, Employment Policy, 1945-75). Defining full employment has been a slippery and elusive goal. The approach has been to define an acceptable and changing level of unemployment, and this has been a political matter as much as an economic one. As Bruce Doern has stated, "there has never been a categorical, politically expressed commitment to full employment."[21]

Relative to the experience of other countries (see Chapter 3), the 1945 commitment was tilted in the direction of efficiency/freedom goals rather than to equity/stabilization ones. Bellemare and Poulin-Simon characterize this Canadian Keynesianism as the "liberal Keynesian" variant, relying on passive measures such as automatic stabilizers, focusing on private investment, and remaining consistent with neoclassical precepts.[22] Even among the liberally oriented Anglo-American democracies such as Britain and Australia, Canada's orientation gave more prominence to private enterprise and insisted to a greater degree that public initiatives be subservient to private enterprise.[23] This involved a distinct break with Canada's past, in which the state had played an active role in economic development, from the National Policy through the use of Crown corporations. Canadian historian Jack Granatstein characterized the Canadian approach as "free enterprise Keynesianism."[24] As will be seen further on, the evolution of political institutions to realize the employment responsibility lagged far behind.[25] The emphasis in Canada has turned out to be far more on the improvement of bureaucratic analysis and technique than it has been on changing institutions or improving mechanisms to improve employment conditions.[26] There were no significant changes in political economic culture or in the political balance of power. No consensus-building or participatory machinery was called for. The capital-labour relationship was not altered, labour gaining distributionally but not in power. In short, the character of the employment commitment in Canada in 1945 did not require significant institutional alterations nor changes in public behaviour or practice. More radical policy approaches or more direct government intervention in the market – widely proposed in the 15 years before 1945 – were removed from the policy agenda.

Given the character of the employment commitment in 1945, then, it could hardly be expected that Canadian governments would be especially rigorous in pursuing full employment. A high level of employment was to be a policy priority, so too was the perpetuation of liberal, capitalist institutions and processes.

Employment Policy, 1945-75[27]

While the "relaxation" of the Canadian government's employment commitment was never formally announced, 1975 is often taken as the year in which the government orientation to unemployment changed in a qualitative sense. From 1975 on, it could be argued that – all other things being equal – control of inflation supplanted containing unemployment as the critical policy goal. The advent of monetarism, the adoption of limits on the rate of growth of government spending, and an increasingly market-oriented economic strategy signalled that a higher degree of unemployment would be tolerated politically than in the past. The post-1975 era will be examined in a separate section.

The period 1945-75, however, can by no means be characterized as a golden era of "full employment." Indeed, by the standards of the immediate postwar period, the economy

experienced few sustained periods of "full" employment. As Table 1-1 indicates, unemployment rose significantly in 1950-51, 1954, 1957-58, 1960-61, 1968, 1970-71, and 1975. Unemployment remained at a substantial level in 1955, 1959, 1962-64, 1969, and 1972-74. A crude way of expressing this point is to indicate that the unemployment rate was below 4 per cent in less than half the postwar period, in 12 of 30 years.[28]

The vast majority of postwar budgets were passive and reflected economic circumstances, with changes in budgetary policy having a relatively insignificant impact on economic circumstances. Bellemare and Poulin-Simon describe fiscal policy's impact on employment and stability as "*une mauvaise performance*," which reflected a passive orientation to employment policy.[29] As an (over)generalization, revenue and budget-balance considerations played at least an equal, if not a higher, role in policy decisions than employment concerns, and neither public investment nor government spending was directed with any degree of rigour to eliminating unemployment.[30] In the continuing context of the predominance of a free-enterprise market approach to employment, successive governments tolerated unemployment for four reasons:

- it was maintained that only the market could deal with non-demand based unemployment that was related to seasonal, regional, structural, or international factors;

- particularly with regard to the containing of inflationary pressures, other policy goals were in competition with (full) employment goals;

Table 1-1

Major Economic Indicators, Real Terms, Selected Years

	Change in				
	GDP	Unemployment	CPI	Fixed capital investment	Exports
			(Per cent)		
1948	1.5	2.3	14.5	13.5	0.8
1949	4.5	2.8	3.1	8.0	–5.3
1950	7.8	3.6	2.8	7.6	–0.9
1953	5.0	3.0	0.9	12.2	–1.3
1954	–1.1	4.6	0.6	0.2	–3.6
1958	2.2	7.0	2.7	–1.3	–0.9
1959	3.9	6.0	1.1	0.7	3.8
1960	2.9	7.0	1.2	–3.1	4.5
1961	3.1	7.1	0.9	–0.3	6.8
1962	7.1	5.9	1.2	4.4	4.1
1963	5.2	5.5	1.8	4.5	9.2
1964	6.7	4.7	1.7	13.2	12.6
1968	5.4	4.5	4.1	0.5	12.6
1969	5.4	4.4	4.6	5.4	8.0
1970	2.6	5.7	3.3	0.3	8.7
1973	7.7	5.5	7.6	9.9	10.6
1974	4.4	5.3	10.9	6.6	–2.0
1975	2.6	6.9	10.8	5.8	–6.8
1976	6.2	7.1	7.5	4.6	10.6
1977	3.6	8.1	8.0	2.1	8.9
1978	4.6	8.3	8.9	3.1	13.6
1979	3.9	7.4	9.2	8.5	5.0
1980	1.5	7.5	10.2	10.1	2.7
1981	3.7	7.5	12.5	11.8	4.4
1982	–3.2	11.0	10.8	–11.0	–2.2
1985	4.3	10.5	4.0	8.1	6.0
1986	3.3	9.6	4.2	5.1	4.7

SOURCE Based on Statistics Canada, *Canadian Economic Observer, Historical Supplement*, 1988.

- it was accepted that the "pain" associated with unemployment was eased by the existence of generous social security provisions;

- further policy actions to deal with unemployment were seen to require (politically unacceptable) increased government intervention in the market and considerable institutional change.

What follows is a presentation of certain key policy "moments," which will empirically confirm these generalizations. The focus will be mainly on fiscal policy; a study of monetary policy would establish that, save for the Rasminsky period, the Bank of Canada has been neither Keynesian nor committed to full employment.

The Immediate Postwar Era, 1945-57

The immediate postwar expansion began to slow down in the late 1940s. Exports decreased in late 1949 and early 1950, private investment slowed, and unemployment rose steadily from 1948 through to the Korean War. The latter was acknowledged in the Throne Speech in 1950, which characterized this unemployment as due to "seasonal and local factors (which) have given rise to a significant amount of temporary regional unemployment." This was a characterization of unemployment which would become paradigmatic over the next decades: unemployment which was not a general phenomenon but one which was "seasonal" and "regional." Complementing this characterization was the reaction to this rise in unemployment: "the security provisions established under unemployment insurance legislation have been called upon to meet the first important test since they were brought into effect," and the government proposed to widen its scope. Unemployment would be, more or less, accepted given its character, and its "pain" eased automatically by social security.[31] This policy approach required no further government intervention in the economy. This foreshadowed the ongoing and challenging political "tradeoff" choice of unemployment/social security over employment/further government intervention.

The rise in unemployment was the dominant issue in political debates during the winter and spring, indicating the extent to which unemployment emoted strong reactions. Nonetheless, the government of the day maintained that it was not its responsibility to deal with this unemployment, for two reasons. On the one hand, periodic unemployment was presented as being inevitable and natural. As Prime Minister St. Laurent put it, "it would not have been surprising if this had occurred before or even if it had been more extensive.... I think that it is really extraordinary that Canada has been able to maintain such an exceptionally favourable position for so long."[32] On the other hand, the government presented four micro or structural and uncontrollable market factors that had caused the rise in unemployment:

- rapid labour-force growth and imperfect labour mobility;

- seasonal factors and bad weather as well as the impact of unemployment insurance. ("In the old days . . . these people did not expect to work, and did not work, and that was all there was to it. Today, for many reasons, they register as unemployed," said C. D. Howe);

- regional unevenness in economic activity;

- the end of the postwar sellers' markets, which constrained export opportunities.

In each case, the government claimed that it could not mitigate these unemployment-generating variables, as it did not have the authority to order people to move around the country, did not have the capacity to control the weather, and could not affect economic conditions outside Canada's boundaries.[33] It was in this context that the government rejected the United Nations' suggestion that a full-employment target be set, as the target could not reflect special local and regional factors and would be too rigid.[34] As a result, the government adopted a relatively passive economic orientation, letting market forces deal with the perceived "local" or "residual" rise in unemployment. The Prime Minister concluded that: "The measures which the government will take . . . will of necessity be flexible, and be designed to meet special situations rather than in the nature of a *grandiose overall blueprint* for the general economy of the nation."[35] Policy action was thus sporadic and ad hoc. The government considered that further actions would require greater intervention, economic planning, and institutional change. In the ongoing political tradeoff between unemployment and institutional change, the government chose the former.

The same story unfolded in 1953-54. Exports and business investment fell in real terms by 1 per cent in 1953 and by 2 per cent in 1954, respectively. There was negative economic growth in 1954, and unemployment rose through 1953 to early 1955 to the 5-per-cent range. The Throne Speech in 1955 acknowledged the existence of "some unemployment of a regional and seasonal nature" and again proposed improving unemployment insurance benefits to provide financial support for unemployed workers.[36]

The government insisted that there was little that it could do, as the causes for the rise in unemployment could not be controlled. On the one hand, seasonal conditions could not be dealt with save via improving unemployment benefits. On the other hand, it was argued that a reconstructed Europe had made international competition that much stiffer, and it was up to private firms to try and regain a competitive edge.[37] C. D. Howe assigned responsibility to firms themselves: "For seven or eight years business has been travelling along a comparatively easy road . . . some of our industries are finding that they have not watched their costs as carefully as they should." In any event, as Finance Minister Abbott put it, "There are bound to be ups and downs in an economy enjoying an unusually high rate of economic growth." Howe maintained that "not every industry in every part of the economy can expect to be profitable and fully employed at all times . . . this is the period that separates the men from the boys." Numerous ministers maintained that the present situation would be self-correcting, and that the government should let the economy sort itself out. As Howe put it, "Any attempt on the part of the government to smooth out every bump and trough in the trend of business may simply aggravate rather than lower the extent of fluctuation in the economy." Labour Minister Gregg argued that a short-term rise in unemployment would improve longer-term economic development and employment prospects.[38] In 1954, Finance Minister Abbott presented his sixth balanced budget in succession.

The 1957 budget was produced in uncertain conditions. Private investment began to decline in the fourth quarter of 1957, falling by 3 per cent in real terms in 1958, and continuing to fall until 1962. Unemployment rose to 7 per cent in 1957. But, prices rose by 3.2 per cent in 1957, and the government was uncertain as to which economic signal it should respond. Two bureaucratic departments presented conflicting economic advice: the Department of Trade and Commerce suggesting that the economic expansion was over, while the Department of Finance warned about inflationary pressures. The Liberal government chose to follow the latter advice and introduced a restrictive anti-inflation budget just as the economy was about to begin a recession.[39]

In the first decade after the 1945 employment commitment,

- increases in unemployment were tolerated;
- it was concluded that a substantial portion of increases in unemployment were due to non-demand factors, which undermined the efficacy of Keynesian measures;
- it was contended that action to deal with these increases in unemployment would require extensive government involvement in the market economy;
- rising unemployment was dealt with by expanding the unemployment insurance system.

The Diefenbaker Government and "Structural" Unemployment, 1957-63

Unemployment rose to 7 per cent in 1958 and business investment continued to be weak. Nonetheless, Finance Minister Fleming rejected a tax cut and expansionary measures. He reiterated the by-now-familiar argument that tax cuts could not create markets for the export sectors which had been hurt by the world recession. Moreover, he pointed to the distinctly unfamiliar "twinning" of unemployment and rising prices – and expressed anxiety about the latter's impact on export competitiveness. Economic policy was passive, as a result of these considerations. In 1959, Finance Minister Fleming insisted that economic recovery had begun and continued to show concern about inflation and its impact on export competitiveness. As Bellemare and Poulin-Simon indicate, inflation began to replace unemployment as the policy priority – a development which would accelerate through to the 1970s.[40] Fiscal restraints were introduced in an effort to balance the budget with taxes raised for the first time since World War II. In 1960, Fleming again introduced measures to restrict government spending and borrowing, and proudly presented a balanced budget.[41] During this period, then, the government pursued tight to moderate fiscal and monetary policies for anti-inflationary reasons, at a time when the economy was sluggish and unemployment was high. While budgetary deficits occurred, they developed in spite of government policy (which aimed at balancing the budget) and because of the weak economic circumstances.

In the early 1960s, the government pursued a new economic policy which was informed by a different conceptualization of what "unemployment" was. In the November 1960 Throne Speech, the government presented the "problems" of the "record numbers . . . entering the labour force" and "those who are displaced by automation and other technological changes."[42] Indeed, by the late 1950s a consensus of sorts was emerging that unemployment was not exclusively the result of an insufficiency of demand, and that government policy should address supply-side and micro variables.[43] The government rejected Keynesian analysis in favour of a long-run, supply orientation. There were two reasons for this shift. Sluggish economic conditions in the late 1950s encouraged the search for supply policies to improve efficiency and productivity in the context of increased international competitiveness.[44] Second, the image of the increased importance of automation in production and rapid technological change, coupled with

the exceptional growth of the labour supply, led to the consideration of unemployment as a "structural" problem. It was seen that a more sophisticated and mobile labour force was required if unemployment was to be lowered. The Conservative government concluded that persistently high unemployment was the result of international, structural, and technological factors over which, as Diefenbaker put it, "there is no immediate control."[45] Policies to raise aggregate demand would be futile and wasted, as it could not be assumed that the increased demand would impact on precisely the targets in need of assistance; more "refined" tools would be required, as Bellemare and Poulin-Simon put it.[46] The Diefenbaker and subsequent governments would see the sorts of policies required as being in conflict with Keynesian policies – rather than complementary to them, as in many European countries – with the result that the Keynesian aggregate-demand approach was dropped.[47]

The economic policy of late 1960-62 aimed at reshaping the Canadian economy over the long term, by trying to increase the pace of industrialization, strengthen the manufacturing and high-technology sectors, encourage a more regionally balanced distribution of economic activity, improve the supply of labour, decrease the dependence of the Canadian economy on the American economy, and make the Canadian economy less open to shocks from the international economy. This extension of policy concerns was stimulated, to a great extent, by the report of the Royal Commission on Canada's Economic Prospects (the Gordon Commission) which had concluded that Keynesian measures by themselves could not provide full employment.

Among other things, this was the origin of government manpower policy in Canada.[48] But non-Keynesian policies were far less grand than all of this suggests. Indeed, given the goals of economic policy, the policies were timid – a token effort, according to Bellemare and Poulin-Simon – and they made a limited impact. The government was schizophrenic about the degree to which political solutions should be imposed onto the market. In the tradeoff between unemployment and institutional change, the Diefenbaker government moved towards the latter – albeit in a marginal and tentative way. As it did, it was charged with using coercive measures and interfering politically in the market.[49]

The 1963 Budget: Full Employment and Structural Policy

The closest which Canada came to having a full-employment commitment was in 1963, when the Liberals returned to power as a minority government. In the hopes of eventually attaining a majority, the Liberal government moved to distance itself from the Conservatives' record of high unemployment and made a politically appealing full-employment commitment. In the Throne Speech and the budget, the government declared that "Any Canadian, young or old, who wants a job must be able to find one."[50] Subsequently, the Economic Council of Canada (ECC) defined a full-employment target as 3 per cent unemployment.[51] For both the government and the ECC, the key to full employment lay in improved structural or micro policies. Subsequent actions included sectoral policies (the creation of the Department of Industry, the Science Council, and the Economic Council of Canada, the Programme for the Advancement of Industrial Technology, General Assistance for Research and Development, and the Auto Pact); regional policies (the Area Development Agency of the Department of Industry, the creation of designated regional development areas, the Atlantic Development Board, and the Cape Breton Development Corporation); manpower policies (the eventual replacement of the Technical and Vocational Training Assistance Act by the Adult Occupational Training Act, the Manpower Consultation Service in the Department of Labour, relocation loans, the Capital Assistance Program, and the Canada Student Loans Act); and economic planning (the Treasury Board and the Economic Council of Canada); their impact, though, was limited.[52] These policies extended the actions of the Diefenbaker government and laid the groundwork for the expansion of political involvement in the economy over the next decade. The more explicit commitment to full employment in the early 1960s confirmed the hypothesis that a *full*-employment policy would require increased state intervention in the economy and a more elaborate set of governmental institutions and instruments. These actions also reflected the political pressures and expectations associated with minority government.

Ironically, the budgets of 1963 and 1964 were not especially Keynesian or expansionary, even given the full-employment goal. Instead, the mitigation of the perceived structural causes of unemployment was to be pursued through long-term policies. In the short term, presumably, Canadians would have to tolerate unemployment. Moreover, in the short term Finance Minister Gordon wanted a balanced budget, which continued to be an independent policy goal. He thus raised taxes to generate revenues. This was an immensely complicated budget, as Gordon juggled an extraordinary number of political goals.[53] In both 1963 and 1964, Gordon rejected the widely anticipated Keynesian tax cut – as he concluded that the resulting extra personal disposable income would be used to purchase imported goods. The budgets of both years were remarkably non-expansionary – given the employment goal.[54]

The Late 1960s

In the late 1960s, the Canadian government was forced to confront the puzzling phenomenon of stagflation – simultaneous inflation and unemployment. Inflation had crept up in the mid-1960s; the consumer price index (CPI) rose by 1.7 per cent in 1964, but by 2.5 and 3.7 per cent in 1965 and 1966, respectively. Unemployment fell during these years from 5.5 per cent in 1963 to 3.4 per cent in 1966. All of this seemed to confirm the logic of the Phillips Curve. However, in the late 1960s, both inflation and unemployment rose simultaneously. For example, from 1967 to 1968, unemployment rose from 3.8 to 4.5 per cent, while increases in the CPI rose from 3.6 to 4.1 per cent. The government more or less had to choose whether to deal with inflation or unemployment. In these years, the government chose to deal with inflation.

In 1968, Finance Minister Benson was "troubled by the extent of unemployment and by the rate at which prices are increasing." In the choice between dealing with them, inflation was seen as the "most urgent need." He rationalized this choice by arguing that "there is no doubt that recent and current inflation is hurting more than the number who suffer from unemployment." That is, the impact of inflation was seen to be universal while that of unemployment was concentrated. This "political" logic would dominate policy decisions on most similar occasions over the next two decades. Benson rejected the idea that there was actually any choice: inflation was seen to create rising unemployment over the long term. A number of taxes and social security measures were increased, and in 1968 the government produced a balanced budget at a time of 5 per cent unemployment.[55]

There was considerable agreement in 1969 that inflation ought to be the continued focus of government economic policy. The Governor of the Bank of Canada argued that while "some concentrate their attention on the short run costs of anti-inflationary policies. . . . I . . . believe that we shall have a better chance of maintaining a high rate of growth of employment in the future if care is taken to preserve the purchasing power of money." Governor Rasminsky concluded that there was no realistic alternative to the pain of anti-inflationary policies.[56] Even NDP Leader, T. C. Douglas, stated that inflation was the priority economic issue. In 1969, then Finance Minister Benson presented plans to balance the budget to contain inflation, and he presented a $250-million budget surplus, which turned into a $1-billion balance over 1969 ($730 million when cyclically adjusted). This complemented the tight money policy of the day, which saw the bank rate grow to a record 8 per cent and the rate of growth of the money supply decline to 2 per cent.[57]

In 1970, Benson continued the government's attack on inflation. He described the policies of the last two years as "squeezing inflation out of the economy by the use of tight fiscal and monetary policies." He promised to be "resolute in continuing to restrain the demands that are made on the economy," and admitted that these actions had slowed the pace of economic activity with the result that unemployment increased. The budget was fairly standpat, a few measures increasing the government's proposed budgetary surplus. Monetary policy continued to be tight in the first half of the year. In late May, the dollar was allowed to float; its value increased as the result of high interest rates and capital inflow, with anti-inflationary and unemployment-generating effects.

Fiscal and monetary policy in the late 1960s was directed to easing inflationary pressures. While there was no "formal" abandonment of the employment goal, it was clear that the latter had to be "sacrificed" or traded off for the goal of price stability. Inflation did indeed decline; the CPI rose by only 2.9 per cent in 1971 (compared to 4.5 per cent in 1969). But unemployment rose from 4.4 to 6.2 per cent in this period.

The Politics of Minority Government, 1973-74

The pre-wage and price control budgets of John Turner in the early 1970s are instructive to examine for two reasons: they showed how policy priorities reflect *political* realities, and they demonstrated the need for an increased range of policies if full employment were to be attained.

The Liberal government returned to office after the 1972 election in a minority situation. To a considerable extent, the NDP controlled the government's fate. This delicate political balance effectively increased the power of labour in a rather direct way. This was one of the few occasions (the 1963-65 period was another) in which labour exercised such political leverage, and the policy results certainly demonstrated this. Electorally, the Liberals were conscious that the unemployment-generating budgets of the late 1960s had not been politically popular. Not surprisingly, then, the employment goal reasserted its policy position in the 1973 and 1974 budgets.

In the February 1973 budget, Finance Minister Turner stated that "the most unsatisfactory feature of our economic performance has been the continuing high level of unemployment. . . . The purpose of this budget is . . . to bring about a substantial reduction in unemployment." By this time, no one remained naively Keynesian in policy orientation. Just as Walter Gordon had looked to institutional means to decrease unemployment, Turner looked to new

policy means to reduce unemployment without exacerbating inflationary pressures: "The budget is aimed at reducing inflationary pressures." As Turner put it, the budget was "... strongly expansionary, while at the same time acting to curb the forces of inflation." The budget's strategy was to accelerate economic growth, to increase employment and the supply of goods, while decreasing pressures on costs and wages. Personal taxes were cut, tax rates and exemptions were indexed, pensions and veterans allowances were increased, and tariffs were reduced. In October, family allowances were increased, old age pensions and the GIS were indexed quarterly, milk subsidies and an oil-price freeze were announced. Monetary policy was expansionary, and the money supply grew by 15 per cent in 1973.[58] The 1973 budget cost the government $1.3 billion. In the context of the boom in commodity prices, economic growth was the highest since 1956, unemployment declined marginally, and double-digit inflation developed.

In 1973 and 1974, Turner noted that unemployment remained high despite a growth in job vacancies. He concluded that:

> Our economy now seems to reach a condition of widespread scarcity and strain in labour markets at somewhat higher unemployment levels than in earlier postwar cycles. The explanation would appear to lie in changes in composition of the labour force, together with changes in our social policies and improvements in family incomes which enable people to take more time to search for the jobs they want.[59]

This was a new conceptualization which would become increasingly prominent over the next decade. The 1974 budget extended the policy orientation established in 1973. Tight monetary and fiscal policies were rejected: "the effect of this would be stagnation and rising unemployment. ... Such a cure would be worse than the disease." Economic controls were rejected on both political grounds (freedom) and economic ones (efficiency and increased production). A micro or structural orientation predominated: sales taxes were cut on clothing, footwear, construction and building material; tariffs were cut on consumer goods; housing tax breaks were established (the Registered Home Ownership Savings Plan [RHOSP]); tax credits were maintained and increased, interest income was declared tax free (up to $1,000); certain taxes were increased to finance all of this; a budget deficit of $450 million was presented.[60] The government was defeated and a similar, even more expansionary, budget was introduced in November 1974.

The 1973-74 period was notable for the following:

- given the political fall-out over the Benson budgets, the government was more sensitive politically to the unemployment issue, particularly in a minority situation;
- acknowledging the existence of an employment/inflation tradeoff, the government looked to non-traditional supply-side measures to "square the circle" in a relatively painless way politically; that is, controls and more directly interventionist measures continued to be rejected;
- the view emerged that a micro or structural approach to employment was required, in light of the "new demography" of the labour supply (namely, an increasing proportion of young people and women) and the impact of social policies (such as unemployment insurance) on the functioning of the labour market.

The Turner strategy may have had some long-term economic logic, as well as a compelling political appeal (namely, the rejection of controls). But as subsequently pointed out, inflationary pressures mounted while unemployment diminished only marginally over the short term.[61]

The Post-1975 Decline of the Employment Objective

While there was no formal abandonment of the employment objective, by 1975 it was clear that "something" had changed. The employment objective had obviously lost its political and moral resonance, and faith in the Keynesian tools had diminished. The "supply shocks" of the 1970s – particularly harvest failures and the Organization of Petroleum Exporting Countries (OPEC) actions of 1973 and 1979 – shifted policy attention away from traditional concerns and strategies. On the one hand, inflation became the predominant economic policy concern. On the other hand, inflation was seen primarily in supply, not demand, terms, and the Keynesian approach and tools were seen to have limited if not negligible capacity in this context. Keynesianism's lack of efficacity accelerated the weakening of the employment commitment and the move back towards traditional market-oriented approaches to economic matters.[62]

The 1975-76 Period

Finance Minister Turner's last budget in 1975 focused on the unemployment/inflation dilemma. After reviewing and rejecting the entire range of policy "options" of the day, he presented an ostensibly "neutral" budget. There was, though, one key ingredient in the budget: "None [of our objectives] is more important than the control of public expenditures." He proposed to cut spending by $1 billion in the 1975-76 fiscal year. A small number of employment measures were to be financed by tax increases. A large

deficit was presented, but this was essentially a passive one which reflected a status quo orientation to the economy. Turner was basically trying to ride out the storm.[63] This was the government's last attempt to avoid imposing economic controls.

Turner resigned his position in September 1975, among other reasons being disinclined to impose a policy of controls. On 14 October, the government presented a major anti-inflationary program. Over and above a prices-and-incomes policy, the government presented monetary and fiscal policies designed to moderate growth. On the one hand, the government committed itself to limiting increases in its expenditure to the rate of growth of the economy. On the other hand, monetarist "gradualism" promised a slowing of the rate of growth of the money supply.

In the 1976 budget, Finance Minister Macdonald restated the government's intention to reduce government spending, and he anticipated a substantial decline in the deficit. He also cited the Economic Council of Canada's study, *People and Jobs* (1976), by way of explaining the introduction of certain labour policy changes. The study had concluded that the notion of unemployment had changed since 1945, and that the aggregate unemployment rate was misleading. The study presented employment and unemployment as "flow" processes, in which a not insubstantial part of aggregate unemployment was seen to be normal and acceptable. Indeed, an unemployment rate of between 5 and 7 per cent was presented as a policy target. Like Turner before him, Macdonald pointed to the "structural" and "frictional" dimensions of unemployment which had arisen as a result of institutional changes (unemployment insurance, training programs, minimum wage) and demographic pressures (the baby-boom bulge and the increased participation rate of women). Employment policy should, he maintained, be directed to improving conditions in the labour market:

> The experience of many countries in recent years underlies the danger of setting targets for unemployment too low or trying to reach them too quickly. If we are to sustain economic growth and job creation while simultaneously bringing down the rate of inflation, demand management policies and policies to improve the functioning of the labour market must go hand in hand.

In particular, he introduced a series of changes to the Unemployment Insurance program, to encourage those with jobs to retain them and those without jobs to seek them (the temporal requirement for eligibility was increased by 50 per cent, and the length of the benefit period was tied directly to the number of weeks worked).[64] Despite this policy "redirection" to the labour market, there was no real increase in spending on manpower policy from the mid-1970s through the early 1980s.[65]

The shift to a stiff anti-inflationary stance in 1975-76 saw CPI increases level off in the 7-to-9-per-cent range in the late 1970s. While there was considerable employment and output growth in the mid-1970s, economic capacity and labour force growth was more substantial. The unemployment rate rose from the fourth quarter of 1976 through to 1979, increasing to over 8 per cent. Cyclical unemployment rose by 5 percentage points in the period 1974-77 as a result of the government's anti-inflation policy. Beginning in the fall of 1975, a policy of monetary gradualism was pursued. The rate of growth of the money supply dropped sharply for most of 1976. The bank rate rose to 9.5 per cent in March 1976. For most of 1976, Canadian interest rates were considerably higher than those in the United States. Monetary policy became less restrictive from late 1976 through late 1977, and devaluation had an expansionary impact. But interest rates rose substantially again beginning in the second quarter of 1978, and by early 1979 the bank rate had increased to 11.5 per cent.[66]

The 1979-82 Period

The late 1970s and early 1980s were "tough it out years," in which government policy induced a recession (in 1981-82).[67] Government anti-inflation policy increased cyclical unemployment by about 5 percentage points.[68] The government's austerity measures were reminiscent of the policies governments pursued in the 1930s, following the theme of "short-term pain for long-term gain." The policy of monetary gradualism was pursued in a more sustained way than in the mid-1970s; the rate of growth of the money supply fell from 10 per cent in 1978, to 7 per cent in 1979, 6.4 per cent in 1980, and 3.3 per cent in 1981 (negative growth in the second quarter of 1981). Interest rates increased to greater than 20 per cent, and employment fell by 3.3 per cent in 1982.[69]

In the 1979 Throne Speech, the government announced its intention to rely on individual initiative to generate growth and jobs and to change the unemployment insurance system to remove disincentives to work.[70] In the budget, Finance Minister Crosbie looked to "initiative, the willingness to work hard, the spirit of enterprise and the risk taking of our forefathers" rather than government intervention in the economy. He declared that "changes in the composition of the labour force, together with the influence of unemployment insurance and other social programs have made unemployment in the 4 or 5 per cent range a thing of the past." The "fundamental objective" of the budget was to reduce the deficit, while inflation continued to be the "major challenge." The rate of growth of government spending was to be limited, and a variety of taxes were raised.[71]

The Conservative government was defeated over the budget, and an economic contraction began in early 1980. Nonetheless, in April, the Liberal Finance Minister Allan MacEachen reintroduced a number of Crosbie's tax measures. In his October budget presentation, he declared that demand management could not realize full employment and price stability goals: "The problems are obviously deeper and more complex and they relate to our basic ability to produce." He reiterated the government's commitment to reduce the deficit and to limit the growth in government spending to the level of economic growth. He also expressed support for the Bank of Canada's second experiment with monetarism. The growth in the money supply fell from 10 per cent in 1978, to 7 per cent in 1979, to 6.4 per cent in 1980, and to 3.3 per cent during 1981 (negative growth in the second half of 1981); the bank rate rose to 21.5 per cent in the summer of 1981. The National Energy Program dominated what was a "status quo" budget.[72]

In the 1981 budget, MacEachen argued that "we will generate less employment, less growth and more unemployment if we attempt to live with inflation." This budget was a "tax reform" budget which was, on balance, moderately restrictive on the eve of an intense recession. Unemployment was not explicitly addressed in the budget (the rate was 7.5 per cent in 1981 and rose to 11 per cent in 1982). The Dodge Report was issued in 1981 (the Employment and Immigration Commission's study, *Labour Market Development in the 1980s*).[73] The report emphasized the non-cyclical dimensions of the rise in unemployment (related to demographic and social policy changes) and concluded that the unemployed did not experience the same degree of "hardship" as in the past. Tight monetary policy, deficit reduction and diminishing government borrowing comprised a budget of "restraint."[74] The recession was acknowledged in the 1982 budget, which included some moderate measures for job creation and aid to small business. The centrepiece of the budget, though, was the "6 and 5" program which was directed at containing inflationary measures. Deficit reduction continued to be a policy aim at a time of 11 per cent unemployment. Overall, the aim of the budget was to increase business confidence and "make Canada a tougher, more resilient society."[75] Monetary policy continued to be tight, based on the following Bank of Canada logic:

> The idea once rather popular, that high employment and output could be more readily achieved and sustained by being relaxed about inflation has surely now been demonstrated to be clearly wrong. Inflation and unemployment are not alternatives between which we can choose. Inflationary policies lead to poor economic performance, including high unemployment. The road to good economic performance is via monetary stability.[76]

The Conservative Government's Budgets

For the Conservative government, employment policy was to be pursued indirectly. As presented in its first Throne Speech in 1984, the government would deal with unemployment in two ways. On the one hand, by encouraging economic initiative and risk taking, private firms would invest and provide jobs. On the other hand, given structural changes in the labour market, manpower policy would be pursued (skill training and retraining) and oriented to the private sector.[77] In his first budget in May 1985, Finance Minister Wilson presented a "fundamental break with the past." The focus was to be on deficit reduction, which was seen as the key to increasing economic growth and reducing inflation and unemployment. "High deficits constrain our ability to promote growth and create jobs." The employment strategy was to be an indirect, "environmental" one:

> At home and in concert with our international partners, we are working to free up the entrepreneurial spirit of our citizens, to remove obstacles to productive growth, to lower barriers to international trade, to control and reduce high deficits, and to let the dynamism of our renewed economies produce jobs and opportunities for all.[78]

In the 1986 and subsequent Conservative budgets, the emphasis continued to be on expanding employment opportunities by reducing the deficit. Some "new" manpower training schemes were introduced and directed at young workers and women, but the real rate of growth of manpower expenditure did not increase in these years.[79]

Policy advice to the government followed a similar logic. In 1985, the Macdonald Commission rejected the option of using short-term policy measures to deal with unemployment and opted for a medium-to-long-term strategy of setting a proper environment for economic progress.[80] In 1986, the Commission of Inquiry on Unemployment Insurance (the Forget Commission) concluded that:

> Unemployment is no longer a short-term cyclical event affecting only a few marginal workers and companies. . . . Increasingly, unemployment arises from major structural changes in the economy involving whole industries, occupations, communities and regions.[81]

All of this was a far distance from the political and economic discourse of 1945.

Conclusion

On the basis of this historical survey, the following tentative conclusions can be drawn:

- the employment objective was not pursued as vigorously as even the 1945 commitment might have suggested;

- in the early postwar years, governments tolerated rises in unemployment which were seen to be due to non-demand and non-controllable factors; governments chose to respect market processes;

- in the late 1950s and 1960s, the notion of "structural" unemployment was accepted by governments, which introduced a variety of supply-oriented and institutional changes; while these were tentative and ad hoc, and not especially forceful, they accumulated over time;

- in the mid-to-late 1960s, inflation replaced unemployment as the predominant policy concern; governments then – and later – willingly (albeit reluctantly) increased unemployment in order to restrain inflation;

- on those occasions unemployment prevailed over inflation as the predominant policy concern, a "complementary" set of policies and institutions (supply-side measures, income controls of some sort) were seen to be necessary if a full-employment policy was to be pursued;

- in the mid-1970s and early 1980s, governments generated recessions and high unemployment in the attempt to restrain inflation; tight fiscal and monetary policies were seen to be inevitable;

- a consensus emerged during the 1980s that the nature of unemployment had changed, as a result of demographic, social, and policy developments; this appeared to call for a different set of policies, with an emphasis on labour market policies;

- from the early 1980s on, conservative thinking has dominated policy and employment considerations; reducing the deficit, restraining the role of government, and increasing individual initiative have been the predominant political and economic discourse in this area, with employment considered to be a market matter.

2 Conceptual Developments

The review of the historical record has indicated that policy responses to unemployment have changed over time. In different situations, governments' attitudes to unemployment have varied. By the 1980s, governments were willing to "tolerate" or accept as inevitable and "natural" levels of unemployment two to three times that which would have been politically tolerable in the immediate postwar period. Indeed, by the 1980s, unemployment was, to a considerable degree, "re-personalized" in the form of the reappearance of the notion of "voluntary" unemployment. This was precisely the notion that had been defeated by the advent of Keynesian analysis in the 1940s; this had asserted that unemployment was not an individual's responsibility or a matter of "choice" but, rather, was due to macroeconomic forces or a "constraint" on the individual.

In broad terms, attitudinal changes to unemployment have themselves been the result of the attempt to deal with unemployment. That is, in the process of carrying out the postwar employment objective, new concepts of unemployment developed. Policy experiences suggested to politicians and their advisers that unemployment is more "complex" than had been asserted in the 1940s. Moreover, changes in economic theory generated "new" conceptualizations of unemployment, just as had occurred in the 1930s and 1940s.[1] To the extent that the employment objective was not realized – or its pursuit appeared to cause other problems – the very notions of "full" employment and policies to this end became suspect. As Bellemare and Poulin-Simon put it, Keynesian's policy failure not only delegitimized Keynesianism; it also undermined the employment objective and the case for government involvement in the economy.[2] The early postwar "consensus" about employment and employment policies dissolved, but a new consensus has not been reconstructed. Competing analytical approaches present different "visions" of unemployment, and this has muddied what had been in 1945 an apparently straightforward issue.

This part of the study presents a number of these conceptual developments, which confirm the working hypotheses of this study. In broad terms, the character of the Keynesian commitment in 1945 was a chicken which eventually came home to roost. On the one hand, its narrow conceptualization of unemployment, its limited array of policy strategies, and its view that the employment objective was costless set in motion a policy experiment which eventually led to policy unpreparedness and disillusionment. When Keynesianism confronted its first "real" crisis, following 1974, there was no institutional arrangements or efficacious approaches ready to be put to use.[3] On the other hand, the rise and fall of the Keynesian experiment illustrated dramatically the nature of the policy tradeoffs confronting policy makers. These conceptual changes can be aggregated in three broad areas:

- the shift from a simple, "aggregate" concept of unemployment to a complex "disaggregated" vision; this included the resurrection of the idea of "voluntary" unemployment;
- the discovery of the "costs" of employment;
- the emergence of the concept of a "natural" rate of unemployment.

Each of these developments illustrated the policy tradeoff between unemployment and institutional change.

The "Disaggregation" of Unemployment and the Rediscovery of Voluntary Unemployment

The conceptualization of unemployment has followed changes in economic theory, from classical theory through to Keynesian theory into the post-Keynesian era.[4] Up to the late 19th century, unemployment was conceptualized as a "personal" not a "social" issue. Indeed, in most languages the word itself was not used until the 1890s. For example, in German, Marx used the phrase "*die unbeschaftigen*" (the idle, or not busy) in his *Capital* as opposed to the word "*arbeitslosigkeit*" (the state of being without work) which did not come into use until the 1890s. The French word "*chômage*" comes from the Middle Ages, from the Greek meaning "to take one's ease during the heat of the day"; in French, "*un jour chôme*" means "a day off." In English, the word "unemployment" did not come into general use until the 1890s.[5]

It was via the late 19th century depressions that the concept of unemployment was "invented." From the mid-19th

century on, the view emerged that the swings of the capitalist business cycle itself periodically displaced large numbers of workers – who could be considered to be "not employed." In the process, the notion of unemployment was "de-personalized." Previously, those not working would be considered to be "idle" or voluntarily without work, as a matter of personal choice. The emerging view was that the greater proportion of those without work had *not chosen* this state of affairs. Macroeconomic developments had caused their unemployment, which was now considered to be involuntary.[6]

As Farrall suggests, the new conceptualization of unemployment followed hard on the heels of developments in economic theory.[7] In analysing the cyclical, macroeconomic basis of unemployment, Keynes suggested that unemployment was the result of an insufficiency of demand. That is, the level of employment was seen to be a function of the level of national income. On the one hand, no one individual could affect the level of national income to ensure that he or she was employed. On the other hand, Keynes presented an "aggregate" analysis which suggested that all unemployment was more or less the same – it was related to an insufficiency of demand. As long as governments could act to ensure that there was a sufficient level of national income, then the economy would experience full employment.

For economic analysts and, especially, policy makers, this Keynesian conceptualization of unemployment was very attractive. It made "intuitive" sense to politicians and was a simple and easily digested vision. On the other hand, it created a policy agenda which was itself simple. As long as governments acted to manage the components of aggregate demand, then unemployment would not rise. As for the rest of the economy – micro, structural matters – the market would continue to sort this out. This suggested that unemployment could be eliminated without national economic planning or precise, specific government interventions into the supply side of the economy. The demand-side policy approach was, in effect, apolitical and relatively costless, compared to a structural approach whose specific and detailed interventions would require delicate political choices and institutional changes.[8]

The postwar employment objective was thus driven by two conceptualizations of unemployment: that it was involuntary and aggregate in character. However, as the Commission of Inquiry on Unemployment Insurance (the Forget Commission) reported in 1986, "Canadians realize that unemployment today stems from far more complex causes than simply the ups and downs of the 'business cycle.'"[9] Over the postwar period, the simple "aggregate" vision of unemployment weakened and was replaced by a less blunt but more complex vision of unemployment. Similarly, assumptions about the involuntary character of unemployment have weakened. These developments have complicated greatly the analysis of unemployment, the choice of policy prescriptions, and the conceptualization of unemployment itself.

Disaggregated Unemployment

As was shown in Chapter 1, and has been illustrated by Bellemare and Poulin-Simon,[10] there really has been no period in which the simple Keynesian notion of unemployment predominated in an exclusive way. Throughout the postwar period, policy practices – as well as discussions about economic theory – have reflected a tension between the macro-foundations of Keynesianism and the micro-underpinnings of economic activity.[11] Indeed, as early as the late 1940s to mid-1950s, Canadian governments accepted as "inevitable" increases in unemployment – precisely because of the view that the unemployment was of a non-cyclical sort. Various factors were cited: harsh seasonal conditions slowed down economic activity in certain sectors; "pockets" of unemployment arose in specific regions or sectors, while the rest of the economy experienced full employment; changes in international economic conditions affected particular industries. By and large, these factors were seen as beyond the control of governments. They could not be influenced as anticipated in 1945, because the unemployment was not cyclical in character. In broad terms, governments in the 1950s allowed the market to take care of this cyclical unemployment. A vision of "structural" unemployment came to compete with, and indeed at times replace, the exclusively demand-based notion of unemployment.

For example, the Diefenbaker years were dominated by the vision of the emergence of "structural" unemployment. While more intuitive than analytical in its presentation, the view was expressed that rising unemployment was related to the displacement of labour brought about by automation and rapid technological change. As a result, the government did not introduce short-term expansionary measures, because the increased unemployment was considered to be non-cyclical. Instead, it shifted its policy focus to long-run, supply matters, which required a certain degree of institutional change and an increase in specific, detailed government intervention in the economy. Moreover, it also suggested the need to "tolerate" unemployment in the short term.

This "structural" orientation took hold and took off from the early 1960s on.[12] For example, in the first four reports

of the Economic Council of Canada, labour market and manpower issues took pride of place, and the budgets of Walter Gordon in 1963-65 were very much "structural" in orientation. In its 1st Annual Review, the ECC disaggregated unemployment into frictional, seasonal, and structural components, and looked to decrease the "full" employment rate to below 3 per cent by improved manpower policies. Unemployment was increasingly presented as being a structural or micro and an "institutional" problem. This orientation predominated through to the mid-1970s, at which time stagflation was characterized as being related to the problem of structural unemployment.[13]

This non-cyclical unemployment was widely accepted in the 1980s as comprising a substantial part of the secular increase in unemployment in this decade.[14] In a 1982 major study (*In Short Supply: Jobs and Skills in the 1980s*), the ECC pointed to "imbalances" between the supply of and demand for labour and focused especially on the problem of long-term unemployment, which was seen to comprise a substantial part of the high unemployment of the 1980s.[15] The Macdonald Commission also pointed to the importance of structural factors:

> A . . . potentially important factor . . . is the rapidity of structural changes in the economy. If the pace of change accelerates, structural unemployment will increase temporarily as the economy and labour markets adjust to increases in demand in some industries and decreases in others. Some evidence indicates that the rate of structural adjustment was higher in the 1970s and early 1980s than in the late 1950s and early 1960s. . . .[16]

In 1986, the Forget Commission saw persistent 10 per cent unemployment as a result of "the economy . . . undergoing a fundamental restructuring . . .," and the creation of new jobs had become increasingly "expensive."[17]

The Keynesian or "aggregate" vision of unemployment was further weakened by the contention that different demographic categories experienced varying degrees of employment and unemployment. Two social developments in particular were seen to have substantially altered the meaning of unemployment. On the one hand, a social revolution of sorts saw a dramatic increase in the participation rate of women in the labour force, with the phenomenon of two-income families becoming increasingly prevalent. The participation rate rose from 57 per cent in 1966 to 66 per cent in 1987. This was due to an increase in the participation rate of women from 35 to 56 per cent; the labour force in this period grew by 75 per cent, while the female labour force grew by 143 per cent. On the other hand, the postwar baby-boom generation began to work its way into the labour force in the 1970s and early 1980s. The participation rate of young people (aged 15-24) grew from 56 to 59 per cent in the same period. The unemployment rate of this age group was persistently and significantly two to three times higher than other age categories.[18]

These developments were reviewed and analysed by the ECC in various reviews and studies, particularly its 1976 special study, *People and Jobs*. This approach informed the analysis of policy makers in the early 1980s.[19] In the Department of Finance's *Economic Review* (1980), it was noted that

> The unemployment rates for . . . young people under 25 years of age and adult females . . . do not follow (a) predictable . . . pattern. The degree of increase in the unemployment rates for these two groups between 1966 and 1970 was unexpectedly large and the degree of improvement between 1970 and 1974 was unexpectedly small.[20]

John Turner's budgets in the mid-1970s were certainly alive to these phenomena. The phenomenon of "youth unemployment" and the rising participation rate of women was analysed by the Macdonald Commission and the Forget Commission.[21]

There was also a regional dimension to the disaggregation of unemployment. From early on in the postwar period, it was recognized that aggregate growth and employment figures masked substantial regional economic variations across the country. While governments in the first postwar decade accepted this as "inevitable," the Diefenbaker, Pearson, and Trudeau governments elevated regional economic development to a matter of national concern. It was recognized, though, that this regional unemployment was not a Keynesian, aggregate phenomenon, with the result that alternative, structural policies would have to be designed. This approach was stimulated to a degree by the Economic Council of Canada's analysis. The ECC's 4th and 5th Annual Reviews (1967 and 1968) suggested that the unemployment rate could not be lowered unless regional weaknesses were addressed. Its 1977 Annual Review pointed to the "uneven pace of regional growth" which created chronic unemployment in the Atlantic provinces, Quebec, and rural and northern regions.[22]

The concept of "unemployment" became more complex over the course of the postwar period. It was transformed from a simple, aggregate concept to a "disaggregated" one. Instead of being a reflection simply of a deficiency of demand, it became accepted as reflecting structural and supply-side factors as well. This resulted from both increased analytical research into unemployment as well as in the course of attempting to realize the employment objective. The precise weight of each of these factors

remains open to serious debate, as will be noted below. This "disaggregation" of unemployment has seriously complicated attitudes and policy response to unemployment, and undermined the employment objective (particularly as mainstream Keynesian economists themselves accepted the resulting redefinition of full employment in the 6.5-8-per-cent range).[23] Governments were presented with the following policy choice. They could do nothing, in effect claiming that non-cyclical factors were outside of the domain of government employment responsibility and policy. Or, they could attempt to deal with this unemployment. In the former case, a potentially high rate of unemployment could be eased by the development of generous unemployment insurance schemes. On the other hand, the latter scenario would require an increased range of government changes, institutional developments, and political interventions in the market.

The Rediscovery of "Voluntary" Unemployment

As noted above, the Keynesian paradigm reflected the gradual 20th century acceptance of the idea that unemployment was *not* a personal, voluntary phenomenon, involving the choice of leisure over employment and income. Rather, the view emerged that unemployment was primarily involuntary and impersonal, and resulted from macroeconomic developments over which the individual had no control. This gave unemployment moral and ideological resonance and gave the employment objective considerable political momentum. For the first three decades after the war, this view remained, more or less, solid and unchallenged. Through to the mid-1970s, governments reacted in various ways to the disaggregation of the concept of unemployment. But the existence of unemployment continued to be accepted as "authentic," that is to say, involuntary.[24]

From the mid-1970s on, the concept of unemployment underwent a reconceptualization, reflecting developments in economic theory and changes in policy. Many economic analysts argued – and convinced governments – that a substantial portion of the perceived rise in unemployment was "voluntary." This was seen to be the result of the development of government social programs such as Unemployment Insurance (UI), which had made the "pain" of unemployment less onerous than in the past. This is a pattern which occurred over the entire postwar period, culminating in the early 1970s. ". . . the history of UI in Canada is one of almost unbroken expansion and liberalization between 1940 and 1975. . . ."[25] From an initial 42 per cent coverage of the labour force in 1940, the Unemployment Insurance program expanded to cover 75 per cent of the labour force in 1955 and 80 per cent in the late 1960s. The Unemployment Insurance Act was substantially revised in 1971 by the Minister of Labour, Bryce Mackasey. Coverage became near universal, at 96 per cent of the labour force. Eligibility requirements dropped to eight insurable weeks, while benefits increased to 66.6 per cent of insurable earnings (from 43 per cent) to a maximum of $100 per week (from $53). This was a substantial liberalization of the UI program. Unemployment Insurance payments comprised 0.4 per cent of GNP in 1949 and over 2 per cent in 1975. At this point, Canada was among the top five countries in the western world in terms of the least number of restrictions on eligibility.[26]

In conjunction with the demographic argument noted above, it was increasingly accepted that a considerable portion of the rise in unemployment reflected a "personal" choice. This conceptualization introduced the idea of the "new" unemployment, which was really a reconstruction in modern times of the classical concept of unemployment. There was an important ideological dimension to this interpretation, as it involved a conservative "backlash" against postwar liberalism and political interventionism. Indeed, there was a "I told you so" dimension to part of this view which can, though, be teased out of the more strictly analytical arguments. This interpretation provided a major challenge to the simple Keynesian concept of aggregate unemployment.

This view came increasingly to inform political analysis of unemployment. The 1973 budget presentation was paradigmatic in this way. Finance Minister Turner assessed the high unemployment of the day. As was the tendency of the time, he disaggregated unemployment structurally, noting in particular its age and sex composition. He also noted that while unemployment was high, so too (relatively speaking) were job vacancies. He attributed this contradiction to the "generous" provisions offered by unemployment insurance, which allowed job searchers to take their time finding a job.[27]

Expert opinion concluded that the simultaneous rise in unemployment and job vacancies was due to the evolution of various social programs, which had created a pool of voluntarily unemployed.[28] Unemployment was now seen as a poor proxy for financial hardship. The Dodge Report commented:

> . . . the perceived costs associated with historically high rates of unemployment . . . have tended . . . to decline in recent years. In particular, it is clear that the hardships associated with unemployment is today much less than it was even 15 years ago.[29]

The Macdonald Commission made similar observations.[30] In analysing the rise in unemployment in the early 1980s, social commentators noted that the unemployed did not suffer hardships in the way that the unemployed did in the 1930s.[31] The result was that unemployment lost, to a considerable extent, its emotional and moral resonance, and dealing with it as an objective became far less urgent politically.

On the one hand, then, it was seen that social policies and two-income families eased the economic hardships of unemployment, while making job searching less immediate and compelling. On the other hand, job vacancies persisted in the context of high unemployment. Out of the combination of these two insights came the view that a substantial part of the rise in unemployment was "voluntary" and the result of personal (and rational) decisions. This vision was conceptualized in terms of a new "theory," which saw this unemployment as an expansion of "frictional" unemployment. What was termed the "turnover" analysis of frictional unemployment had conceptualized a "new" unemployment – the resurrection of classical unemployment. This view was powerfully articulated in the 1976 ECC study, *People and Jobs*. (Ironically, this view was more or less rejected in a later ECC study in 1982.) Commenting on UI and social policy, the report stated:

> These changes have undoubtedly helped to reduce the insecurity and the financial burden of periodic unemployment but, when combined with the much greater prominence of married women in the work force, they may have had other ramifications in terms of how long workers stay at jobs they do not enjoy or how earnestly they look for work once unemployed.

The report managed to reduce the unemployment rate to 3 per cent by teasing out part-time job seekers, teenagers, old people, and job searchers.[32]

Recent economic theory came to see unemployment as "painless" and short term and rational, as involving personal and voluntary strategies for maximizing satisfaction.[33] This microeconomic approach to unemployment focused on unemployment as "choice" rather than as "constraint." Individuals might choose to remain unemployed voluntarily for a long period, because their "reservation wage" was fairly high, due to the fact that unemployment insurance had made the waiting period less unpleasant. A variant on this theme was the "turnover" vision of unemployment, which conceptualized employment and unemployment as "flows" of people in and out of jobs, with unemployment involving relatively short-term "searches" for better jobs.[34]

In short, the experience of the last half of the 1970s and the early 1980s suggested to analysts and policy makers that a substantial portion of the rise in unemployment was voluntary in nature. On the one hand, young people and married women entered and left the work force, depending on priorities, wage rates, and other factors. On the other hand, institutional changes such as UI diminished the degree of hardship associated with unemployment. This was seen to allow job seekers to be "picky," take jobs for short periods of time, move in and out of jobs, and so on. Normatively, this suggested to some that many of the unemployed were "inauthentic." Analytically, this suggested to others that this unemployment might actually be "productive," as extended job searches might improve the match between the supply of and demand for labour. In any case, this changed the normative character of unemployment and altered substantially policy attitudes towards it. A large portion of unemployment could now be tolerated and rationalized as part of market operations.

The disaggregation of unemployment and the rediscovery of voluntary unemployment had another important implication. The concept of unemployment became more complicated, and the discourse around it became much less certain and led many observers to conclude that the traditional, widely cited "unemployment rate" was misleading. For example, in its 1978 Annual Review, the ECC concluded that the national unemployment rate "no longer adequately reflects the complex forces that mark the contemporary scene." The Annual Review argued that the unemployment rate should be seen as only one of a variety of measures of the labour market. The overall unemployment rate obscured the realities and needs of women, young people, provinces, and selected industries and occupations. It did not accurately gauge economic hardship, and its aggregate, macro character missed the subtleties of micro events and processes in the labour market.[35] The "meaning" of the unemployment rate had now to be used with "caution," and the complex and myriad quality of unemployment required "finer more specific remedies."[36]

The concept of the "unemployment rate" was based on cyclical, Keynesian reasoning. This was a classic example of the relationship between theory and statistical constructs. To the extent that the theory "weakened," or was challenged, there was a lag in developing statistical constructs that reflected the emerging understanding of unemployment. The statistical category persisted precisely because of the view of the complexity of unemployment. As the Forget Report put it, "Canadians realize today that unemployment stems from far more complex causes than simply the ups and downs of 'the business cycle.'" On the other hand, unemployment is "too complex to be described adequately by a single figure."[37] In a sense, then, the "complexity" of unemployment itself became a problem – the concept was

too slippery and elusive and conceptually dense to make it viable or operational in terms of a policy objective or practice. In his 1980 budget presentation, Finance Minister MacEachen contrasted the earlier Keynesian aggregate reasoning with the contemporary view of unemployment in which "the problems are obviously deeper and more complex."[38] Hence, also, the statement of the Macdonald Commission cited at the beginning of this paper.

Not surprisingly, a complex "concept" has generated controversy in its study and application, and no "consensus" has emerged as to what unemployment means, how important one factor is compared to another, what ought to be done about it. This is in sharp contrast to 1945, when a theoretical consensus generated a simple, straightforward notion of unemployment and its remedy. But, as Farrall points out, the concept follows the theory, and there is no theoretical consensus at the moment to produce an efficacious conceptualization of unemployment. The debate over the "supply" and "demand" dimensions of unemployed has been going on since the late 1950s, with the only difference now being that the debate has become extraordinarily complex.[39] Powerful analysis continues to suggest that a substantial part of the contemporary rise in unemployment is due to an insufficiency of aggregate demand.[40] Other sophisticated arguments are presented that contemporary unemployment is very much a micro/choice matter.[41] Still others point out the changing supply/demand composition of unemployment or attempt to disaggregate the aggregate rate into supply and demand components.[42] One analyst presents six explanations of unemployment, and another presents seven "generalizations" about it.[43]

Certain policy implications of these developments will be noted in Chapter 3. One can generalize here that the "uncertainty" about the concept of unemployment has resulted in policy experimentation and "flip-flopping." As a broad generalization, to the extent to which policy makers have been confronted by more nuance visions of unemployment, the level of "acceptable" unemployment and the range of policy options and actions have increased. Moreover, the sense of "failure" or policy ineffectiveness has created momentum for policy withdrawal from the economy.

The Employment Objective and "Tradeoffs"

For policy makers in 1945, the commitment to perpetuating a high and stable level of employment appeared to be, more or less, "costless." On one level, the character of the employment commitment – founded on the Keynesian vision – seemed to eliminate the most expensive "tradeoff" which politicians confronted: the tradeoff between unemployment and substantial changes to capitalism and liberal democracy. That is, the Keynesian employment commitment did not demand economic planning, nationalization, or far-reaching institutional change. In this profound sense, the Keynesian employment commitment was politically almost costless. On another level, that market and democratic arrangements were left intact did not require that any particular group "pay" by being economically sacrificed to this objective. This commitment appeared to offer benefits to all members and groups in Canadian society. Labour would obviously benefit from high employment, social security, and the political logic of aggregate demand (namely, rising national income). Capitalists would benefit from economic and social stability, as well as from the absence of public ownership and economic planning – not to mention low taxes and interest rates. It is unlikely that Canadian politicians would have made the Keynesian employment commitment in 1945, had the commitment involved significant political or economic costs or institutional changes involving intervention and coercion. The perception of a "costless" employment perspective was also a function of the persistence of the fear of a return to depression conditions.

This evaluation persisted, to a great extent, for two decades. Indeed, at those times when unemployment did appear, governments expressed the view that to eliminate this "non-Keynesian" unemployment would require politically unacceptable interventions in the market to deal with regional, seasonal, sectoral, and international factors. The tradeoff between this unemployment and institutional change was considered to be too high. Morally and emotionally, this unemployment was "rationalized" via improving unemployment insurance – as this was considered to be relatively simple and costless politically, if not economically.

The advent of inflation changed this evaluation between the mid-1960s and the mid-1980s.[44] There were two stages to the change in evaluation. In the first stage in the late 1960s and early 1970s, the Phillips Curve paradigm dominated policy discourse – the tradeoff between high employment and price stability. The view emerged that the economy experienced an inflationary bias at or near full employment. To the extent that employment fell, prices were inclined to rise, and vice versa. In the first instance, though, this was seen to be a bit of a policy "nuisance," for the costs associated with this tradeoff were seen to be tolerable.[45] For example, the ECC's Annual Review in 1966 presented the view of monetary and fiscal "fine tuning" in the effort to create a "balance" between the two objectives.

It also looked to manpower and supply policies to break up bottlenecks so as to diminish the tradeoff costs between the two objectives. Even with the legitimation of the price stability issue and the identification of the tradeoff, the Annual Review concluded that this was not a serious problem: "Important problems have indeed arisen, but none so far can properly be compared to the mass unemployment and general economic disorganization of the 1930s."[46] Of course, the policy process was "complicated," inasmuch as there were competing or multiple goals which had to be addressed simultaneously. The Sharp budgets of the mid-1960s and the Benson budgets of the late 1960s and early 1970s were Canadian examples of "stop-go" policies which attempted to "balance" the two goals. But policy instruments were relatively blunt, and economic policy tended to err on the one side or the other – with subsequent policy reaction.[47]

This pattern was seen to be "acceptable" if not attractive. As the Dodge Report noted, ". . . there was a widespread consensus amongst politicians and the professional economics community that a relatively low level of unemployment could be achieved and sustained without accelerating inflation."[48] In the first stage of the evaluation of the price/employment tradeoff, the tradeoff was acknowledged, and its costs were considered to be acceptable. But the concept of "full" or "high" employment was "softened." There was no longer an "optimal" level of employment that could be conceptualized on its own. Unemployment could now be considered only in the context of its relationship to prices, so the employment objective was diffused.

In the second stage of the evaluation of the tradeoff, the "costs" of the tradeoff were seen to be both politically and economically unacceptable. On the narrowly political level, there were, by and large, more "votes" in inflation than there were in unemployment. To the extent that inflation rose significantly in the 1970s, all Canadians were affected by it, both directly and psychologically. The "universality" of the impact of inflation stood in stark contrast to the "constrained specificity" of unemployment.[49] On the economic level, the view emerged that there was no stable tradeoff between price stability and employment – in the absence of substantial institutional change. Under the influence of analysis of Milton Friedman and others, the view emerged that the Phillips Curve was "vertical." That is, it was concluded that attempts to decrease or even stabilize levels of employment at particular inflation rates would only increase the inflation rate associated with that original level of employment. Instead of a "basket" of options to choose from, governments were told that there was, in effect, no tradeoff: "There is no longer an argument for accepting somewhat more inflation in exchange for less unemployment."[50] Indeed, governments were told that the long-term prospects for diminishing unemployment lay exclusively in a policy of cutting inflation.[51] As a result, as the historical record above indicated, government economic policies in the 1980s have focused on restraining inflationary pressures as a way of decreasing unemployment over the long run. The short-run level of unemployment decreased in policy importance, because of the emergence and acceptance of the view – even by Keynesian economists[52] – that there was no short-term tradeoff between unemployment and inflation. Unemployment diminished as a policy objective, replaced by the now more evocative goals of deficit reduction, control of government spending, and restraining inflation.

Thus the discourse on unemployment changed dramatically as a result of changing conceptions of the "costs" of the employment objective. Given a perception of the "costlessness" of the employment objective, governments could be confident in the desirability of the objective and their capacity to realize it. Given a view of a "tradeoff" between the employment objective and price stability, the employment objective was assigned a price tag – in the form of rising prices; but, as long as the price did not appear to be "too" high, then the tradeoff could be considered to be acceptable. But, given a view that suggested that there is no stable tradeoff between the employment objective and inflation, governments were presented with two starkly contrasting options. They could drop the employment objective as a short-term goal and direct their policy energies to eliminating inflation. Or else, they could attempt to devise innovative or non-conventional policies which would allow them to retain the employment objective at a less inflationary cost.

The Turner supply-side budgets were a dramatic attempt to devise a policy approach that would square the circle in a relatively costless way politically. He attempted to diminish both inflation and unemployment by encouraging the growth of the supply of output and diminishing individuals' tax burdens. This, then, was a market approach, which did not involve institutional costs. At the same time, the government had been exhorting individuals and groups to restrain themselves in the national interest. Used first by Finance Minister Sharp in the mid-1960s, the policy of exhortation was "formalized" in the shape of the Prices and Incomes Commission (PIC) in 1969. The PIC had the mandate to encourage voluntary restraint; it had no formal powers to coerce or insist that individuals alter their economic behaviour. Various national conferences were organized, and an attempt was made to produce "voluntary guidelines." This attempt failed, and the PIC was disbanded in 1972. Turner later attempted once again to generate a consensus around voluntary restraint and initiated a series

of "tripartite" meetings among business, labour, and government. In early 1975, 21 meetings were held and a voluntary plan was announced in the spring. This plan soon foundered. Up to his resignation in the fall, Turner continued to reject a policy of economic controls, pointing to the problems of market interference, increased bureaucratic control, inequity of impact, inflexibility, and the absence of political consensus in favour of them.

From the mid-1960s through the mid-1970s, Canadian governments tried to juggle a series of policy balls. In effect, they attempted to retain the employment objective while keeping prices stable – but in a politically "costless" way without serious institutional change. The value of a market approach remained high in the policy tradeoff calculation. This changed, in October 1975, at which time the government appeared to throw out two policy objectives: economic controls were applied, and a tighter monetary and fiscal policy was initiated. The employment objective was dropped. Ironically, the costs associated with institutional change were accepted (albeit for a time) not to attain full employment, but rather to diminish inflationary pressures.

By the mid-1970s, then, it had become abundantly clear that governments could not consider the unemployment/inflation tradeoff in the absence of simultaneously considering the tradeoff between these objectives and institutional change. This will be examined further in Chapter 3.

The "Natural" Rate of Unemployment

As has been noted, there has never been an uninhibited political commitment made to full employment in Canada over the postwar period. Instead, governments have accepted varying degrees of responsibility to perpetuate high levels of employment. Quantitatively, what this has meant has changed over the years, parallelling the conceptual and political changes which have been noted. The halcyon period for the employment objective was the early and mid-1960s. For example, 97 per cent employment of the labour force was considered to be the short-term full-employment level in the 1960s. Through the late 1960s and early 1970s, the employment objective was pitched as a medium-term goal, and a quantitative figure was noted less frequently. In 1974, the ECC set the target rate for full employment at 4.5 per cent. Through the remainder of the 1970s, structural issues, the emergence of stagflation, and the disaggregation of unemployment contributed to the construction of new concepts of unemployment.[53] In its 16th Annual Review in 1979, the ECC presented a new formulation of unemployment, which has dominated policy discourse to this day. Given the preoccupation with inflation, and the emergence of the view that there was no stable price/employment tradeoff, the ECC presented the idea of an employment objective as that level which could be attained without creating inflationary pressures. It called this the "equilibrium" rate of unemployment, subsequently described as the "natural" rate of unemployment or the "non-accelerating inflation rate of unemployment" (NAIRU). It argued that, for structural and institutional reasons, NAIRU had increased in the 1970s and was somewhere between 5.5 and 7.5 per cent in the mid-1970s. It maintained that efforts to reduce unemployment below 6.5 per cent would simply accelerate inflation. In its 19th Annual Review in 1982, it set NAIRU at between 6.5 and 7 per cent.[54] In its 1985 *Report*, the Macdonald Commission set NAIRU at somewhere between 6.5 and 8 per cent, and this range is now widely accepted. Only that unemployment above the NAIRU would be considered to be cyclical unemployment.[55]

The evolution and acceptance of the concept of NAIRU was the logical culmination of the conceptual and "disaggregating" factors discussed in the previous sections. It also served to explain or "rationalize" the secular increase in the level of unemployment over the postwar period. On the one hand, institutional and social policy changes were seen to have increased the amount of "voluntary" unemployment and of unemployment of an "inauthentic" sort. On the other hand, various structural changes had made the supply of and demand for labour harder to match. In the combination of the two, the "natural" or "equilibrium" level of unemployment was seen to have risen. And, for all intents and purposes, this was unemployment which could not be mitigated – without institutional change.

The development of the concept of NAIRU has seriously weakened the emotional and political character of unemployment. Indeed, it resembles, to an extent, the classical vision of unemployment – and so in this way, we have come full circle over the last half century. The concept of NAIRU diffuses the political impact of unemployment for two reasons. First, it suggests that a substantial portion of unemployment is beyond the control of "normal" government policy efforts. Second, it is a quantitatively elusive concept, and it has become relatively easy to simply identify NAIRU as being at or near the present level of unemployment. This allows policy makers and analysts to downplay its political and emotional meaning. On the other hand, to identify NAIRU does not imply that one has to accept it as the only possible objective or as socially optimal.[56] In its Annual Reviews in the early 1980s, the ECC suggested that disaggregated, structural and supply-side policies could be used to decrease NAIRU. It is now widely accepted that the tightening of unemployment insurance in 1977 and 1978

decreased NAIRU by 0.5 to 1 per cent. Presumably, if UI were to be eliminated altogether, along with the minimum wage and retraining programs, NAIRU would plummet. And, institutional changes could conceivably generate a situation in which there was no unemployment.

To suggest these "options" is to note what has been a consistent theme in this study. It is abundantly clear that to talk about unemployment, or to speculate about decreasing NAIRU, involves speculating about the relationship between unemployment and other goals. Take, for example, the following statement by the Macdonald Commission:

> Commissioners recommend to labour, business and governments that they consider some form of incomes policy, coupled with supportive monetary and fiscal action, to increase employment. Without such a comprehensive approach, reduction of unemployment to the level of 6.5 to 8 per cent may be a lengthy and difficult process. Furthermore, without such a demonstration of political will by all major groups in society, and by individuals as well, the prospects for undertaking major structural changes to reduce unemployment below 5 per cent would appear to be less bright. This basic challenge of political will is the central determinant of improved economic performance.[37]

The Commission was disinclined to recommend permanent economic controls, on freedom and efficiency grounds. Nonetheless, it argued that attempts to diminish unemployment would be protracted – and probably ineffective – in the absence of institutional changes such as income and structural policies. Indeed, it put the issue quite baldly, posing a fundamental relationship between unemployment and political will. In the late 20th century, it would appear that Canadians face a basic tradeoff between the values associated with unemployment and institutional change. This tradeoff is explored – in a comparative perspective – in Chapter 3.

3 Comparative Perspectives

Different industrialized countries have experienced widely varying levels of unemployment since World War II – despite the fact that they all more or less made an employment commitment after the war. Therborn groups countries in three categories: high-unemployment countries (Belgium, Holland, Britain, Denmark, and Canada), medium-level ones (Italy, France, United States, West Germany, and Finland), and low-unemployment countries (Austria, Switzerland, Sweden, Norway, and Japan).[1] As Table 3-1 indicates, these differences can be stark. Why has Canada (apparently) been a high-unemployment country, while Austria, Sweden, Japan, and others have experienced lower rates of unemployment?

All of these countries are democratic societies whose citizens have held expectations that their governments ensure the existence of high, if not full, employment. What differentiates these countries from each other are the institutions and procedures which have been developed to translate citizens' preferences into public policies.[2] These institutions and procedures vary systematically in their *capacity* to deal with particular social and economic problems.[3] Indeed, with regard to the employment objective, it can be argued that there are high-, medium-, and low-*capacity* countries.

The varying degrees of capacity are, in turn, a matter of political will or choice, what Therborn calls a "national politics of employment." The character of a country's employment objective is set in the institutional realm, and its approach to unemployment reflects fundamental political decisions. In broad terms, the Anglo-American democracies (such as Canada, the United States, and the United Kingdom) have placed a value premium on the perpetuation of liberal democratic and market forms. Suspicion of government interference has limited the encouragement given to the development of institutions capable of and designed to eliminate unemployment. A politically *limiting* Keynesian approach to unemployment inhibited the development of collegial institutions and supply-side and interventionist manpower policies and capacity which marked the experience of many European countries and Japan. In these countries, a weaker liberal inheritance and different traditions and structures allowed the development of institutions and procedures which were designed to deal with unemployment. These institutions and procedures had a greater capacity – both economically and politically – to deal with unemployment. (Given Canada's different traditions, culture, and structures, whether it *could* have developed these new types of institutions is, of course, a debatable matter.)

Table 3-1

Unemployment Rates,[1] Selected Countries, 1956-87

	1956-66	1967-74	1975-79	1980-83	1984-87
Austria	2.4	1.5	1.9	3.0	3.6
Japan	1.7	1.3	2.0	2.3	2.7
Sweden	1.7	2.2	1.9	2.8	2.6
Canada	4.9	5.2	7.5	9.4	9.98

1 Standardized Organisation for Economic Co-operation and Development (OECD) rates except for Austria, the commonly used definition.

Source Based on OECD, *Economic Outlook*.

It is in this comparative manner that one can see most clearly the tradeoff between institutional change and unemployment. The low-level institutional commitment to employment in Canada (Keynesianism) generated few new institutions dedicated to full employment, and no public participation. This resulted in a low capacity to deal with unemployment and an employment policy which, ultimately, rested on the provision of unemployment insurance benefits to ease the pain associated with high levels of unemployment. In other countries, a deeper employment commitment saw a more extensive array of institutions and procedures to eliminate unemployment and a broad range of public participation. Active, interventionist policies were far more prominent and effective in attaining full employment than passive social security measures. One can label these approaches the "Dutch" and the "Swedish" models respectively.

In this part of the study, a number of conceptual features will be drawn out of the employment experiences of Austria, Norway, Sweden, and West Germany. This will be followed by a more "in-depth" look at Sweden, perhaps the best

illustration of a political commitment to full employment. Canada will then be examined again in light of this discussion.[4]

Other Countries

The Canadian experience with the employment objective was different from that experienced by a variety of other countries. As a broad generalization, the Keynesian approach did not figure large in the postwar experiences of countries such as Austria, Sweden, Japan, and Germany.[5] Instead of, or in addition to, Keynesian measures, these countries initiated far more specific, detailed, interventionist, and institutional measures to realize full employment. Given a weaker liberal political and economic inheritance, political institutional and economic factors did not place as large a constraint in the choice of employment objectives and instruments. In the tradeoff between unemployment and institutional change, there were fewer ideological and institutional constraints associated with the tradeoff. The "costs" of institutional change were less, and it was far easier to articulate the employment objective through institutional changes. Groups articulating the employment objective were given roles in its pursuit. These roles encouraged the evolution of more collegial institutions and a more consensual political economic culture than existed in Canada over the postwar period. Rather than a matter of policy "technique," the employment objective was "institutionalized": the commitment to full employment was translated into institutional and cultural changes. Bellemare and Poulin-Simon focus on three crucial conditions which full-employment-sensitive countries have in common: a well-articulated political commitment to full employment, the development of institutions engaged in attaining full employment, and active public involvement in these institutions.[6]

The capacity of social groups to make this full-employment demand – as well as to participate in these institutions – is a function of the well-integrated socio-economic systems of these countries. The existence of such systems has been *encouraged* by governments, precisely to ensure that socio-economic systems can be integrated into collaborative institutional mechanisms, to ensure that the strategically most important groups act in the national interest. These institutions can then "deliver the goods." In contrast to Canada, where labour and business are fragmented and poorly organized,[7] these countries have highly concentrated and centralized organizations, which speak with "one voice."[8]

In Japan, the Zaibatsu were pieced together after the war; the financial system (Zakai) is highly concentrated; industrial sectors are concentrated and tied to a particular bank; subcontracting networks tie small- and medium-sized firms to the large ones; competition (outside of technological competition) is discouraged and governments and the banks have encouraged cartelization. German and Swedish businesses are highly concentrated. In Austria, the government – in conjunction with the state bank – controls two thirds of corporate capacity. These concentrated business communities are organized in institutional hierarchies and speak in one voice: the SAF in Sweden; the Keidanren in Japan (which comprises the 700 largest Japanese corporations and 100 business associations); the Federated Union of German Employers Associations (80 per cent of all private companies); the industrial and agricultural "Chambers" in Austria (where membership is compulsory). These organizations have the capacity to act as "consensus building" institutions.[9]

The situation of labour exhibits similar tendencies. A compulsory labour Chamber and a voluntary Trade Union Federation give labour a parity in Austria's "Social Partnership." The latter must approve all collective agreements, and labour has equal public status and authority in the decision-making process. In Sweden, a high labour force participation rate (about 80 per cent) and an equally high unionization rate are the basis of labour's organizational strength in the Swedish Trade Union Federation (the LO). Collective bargaining and negotiations are highly centralized processes. While German workers are only about one third unionized, the German Trade Unions Association (DGB) speaks with authority for German labour. The system focuses on the autonomous industrial unions, and efforts are made at "co-determination" (Mitbestimmung) through workers councils and representation on boards. Organization at the workplace is highly developed in Austria and, particularly, in Sweden. Organized labour is relatively weak in Japan, but enterprise unionism has laid the basis for the labour sense of plant and corporate loyalty, participation in planning, and a system of shared responsibilities and rewards.[10]

These socio-economic systems give capital and labour the capacity to participate in collaborative policy making. In Canada, this has not been possible precisely because of the absence of this capacity. In these countries, social participation in policy making is offered in some way, whether within the state itself or through some adjunct process. This generates trust in the policy process and the legitimacy of the results. The emphasis is on dialogue, discussion, and consensus-making efforts. In Japan, the antipathy towards a "bare majority" approach has seen the development of the tradition of collective decision making, open communications, minimization of conflict, consensus building, and

consent. Consensus is seen as a "good in itself" in Sweden, while Germany's solidaristic traditions of cooperation and participation have generated a consensual style. Austria's system of Social Partnership has been built on the principles of group parity, unanimity, and consensus.[11]

The result has been a policy process built on "consensual" as opposed to "majoritarian" principles. A strong sense of minority rights in Japan ensures that controversial legislation is thoroughly scrutinized and, if a consensus cannot be formed, nothing is done. The Swedish policy process is designed to generate comprehensive consultation particularly through the all-party commissions of enquiry. Coalition government and the preference for all-party agreement in Germany have generated a consensus-building approach. In Austria, the government is obliged to consult all interests before taking action, and policy moves through the Chambers, political parties, provinces, interest groups, and committees in an attempt to get all-party agreement.[12]

Each country has developed unique policy institutions and procedures that allow the translation of socio-economic demands and expectations into policy results, while ensuring policy effectiveness. These institutions ensure that governments have the capacity to realize their institutionalized commitments, such as the employment objective. The Labour Market Board manages Sweden's solidaristic wage policy, extensive labour market activities, and the collection and release of investment funds for countercyclical purposes. As will be seen further on, Swedish employment policy rests extensively on the development of a capacity to affect the supply and demand for labour. "Concerted action" reflected a desire to reach accommodation in Germany. In Austria, the system of Social Partnership involves a permanent process of collaboration, aggregating and integrating interests, with the result that income, employment, and, to a considerable extent, investment are publicly managed. The Parity Commission oversees all wage contracts and about 25 per cent of the goods which comprise the CPI. The Presidents' conference sorts out disagreements, while the Economic and Social Advisory Board guides government decisions in other areas.[13]

Collaboration also takes place via the party system. In Austria and Sweden, the political parties have a kind of symbiotic relationship with the corporate bodies. The Japanese Liberal Democratic Party (LDP) comprises formal "factions," which are each consulted on policy, and the LDP itself participates directly via the Policy Affairs Research Committee. The Japanese bureaucracy also generates collaborative processes. Ministries have advisory boards (Shingkai), composed of experts and concerned interests, which act as sounding boards. Administrative bargaining is formalized, as it is in Germany, where it also takes place at the bank/business level. Public and private collaboration also take place via autonomous political authorities, such as the judicial system, the cartel office and the central bank. Labour and capital collaborate in all of these countries through the centralized wage process (e.g., the LO with the ISAF in Sweden; the Social Partnership in Austria); at the industry level (e.g., the joint council of workers and management in Japan; workers councils and board representatives in Sweden, Germany, and Austria); or on boards and advisory bodies (e.g., Japan's Productivity Center and the Labour Round Table Conference; Sweden's Councils on Labour Market, Development and Rationalization).[14]

All of these institutions and processes generate a dense network of collaborative interaction at all levels of society. This ensures that the policy process is long, slow, filled with conflict, and may not always produce the most "rational" policy. But the resulting policy is likely to be perceived to be legitimate, well executed, and effective. In other words, the process has the capacity both to articulate objectives, such as the employment objective, build a consensus, and realize it.[15] On the one hand, the process is then exceedingly credible, which increases the likelihood of effectiveness. On the other hand, expectations about the process and its results also generate a self-fulfilling prophesy.[16] Sweden is "saturated with organizations" (*genomorganiserad*). Often, 300 commissions are at work, and hundreds of administrative agencies exist. The Proporz system and Social Partnership ensure that collaboration exists in all dimensions of Austrian life. Factions are the basis of Japanese life, and this is reflected in a very high degree of social organization.

Out of these dense, collaborative processes has come a coherent and specific set of shared objectives. These have become, more or less, non-negotiable; and it is around these objectives that the organizations are constructed and operationalized. For example, the Japanese sense of international vulnerability has made economic policy the core issue. Centering on economic growth, policy has focused on international competitiveness, adaptability to new technology, and rationalization. Oddly, inflation has never been a priority policy concern. Shared perceptions of these issues have eased consensus building. In Sweden, full employment is simply a non-negotiable issue, and policies relying on the wage/employment tradeoff are simply unacceptable. Given a full-employment constraint on a trading economy, there is a shared sense of the need to be internationally competitive. A similar state of affairs exists in Austria and Germany, although full employment is not as compelling an issue in Germany (currency stability ranks higher). In Austria, the social partners place a premium on "avoiding conflict," with the result that a "full employment" commitment focuses policy attention on export competitiveness.[17]

Ironically, these collaborative, consensual approaches to policy fragment, disperse and limit the use of political power. Dependent on social interests for their effectiveness and legitimacy, these governments find themselves with less actual power than, say, the Anglo-American democracies. They do not perform a "refereeing" role, but actually enter into "bilateral" and "multilateral" relationships with each organized interest or process. These governments, then, present a picture of relatively limited government power and activity. While the Japanese political and policy process is centralized, the state is relatively small and very selective about what it does. In Austria, a weak prime minister and Cabinet are heavily dependent on interest groups in the coalition setting. Much of what the Austrian government does, is to formalize what has been decided by the social partners. The latter collaborate successfully, precisely to avoid policies being imposed on them by the government. The Swedish government has avoided involvement in wage negotiations, the Saltsjbaden Agreement (1938) having set unions and business organizations apart from the state. All-party commissions of enquiry and the separation of agencies and boards of implementation away from the state limit the thrust of the central government. Compared to the rest of Europe, there is little German public ownership and government involvement in the economy. The strong and coherent banking and business systems have inhibited the need for a strong state presence in the economy.[18]

The concrete and specific relationship between governments and their economies varies from country to country. While 90 per cent of GNP "travelled" through the Swedish government in 1980, 90 per cent of industry remained in private hands. The idea of comprehensive long-run planning was rejected after the war. In the context of the full-employment commitment and independent social wage negotiations, government efforts have centred on the development of policies and institutions to ensure export competitiveness. A trio of policies was pursued: the solidaristic wage policy reallocated capital and labour to the most productive sectors and enterprises; the Investment Fund stabilized the use of capital in countercyclical terms while directing investment to priority sectors; and labour market policies assisted the training and reallocation of labour. The unemployment/inflation tradeoff was lowered substantially in the context of labour support of public policies (see the section on Sweden).[19]

In Germany, the Bundesbank provided price stability, while labour and capital engaged in consensus-building collaborative relationships, allowing government policy to be producer-oriented and pragmatic. Policies tended to be supply-oriented but affected, ultimately, through the market mechanism.[20]

In Austria, about 40 per cent of investment is effectively "socialized" and the state oversees about two thirds of the economy. Administrative controls set 25 per cent of prices, and another 25 per cent are set by the Parity Commission. But Austria does not engage in economic planning. Given the number of participants in the dense collaborative process, no grand overall policy is possible, resulting in a process of incremental change, flexible reactions, consensus building, and muddling through. There is a basic distrust of sectoral economic policy, a reflection of the extent to which the economy is composed mainly of small- and medium-sized firms. Many critical policy issues are settled by the social partners themselves. While the government steers clear of the wage process, within the public sector firms have the statutory obligation to take into account the interests of workers and the economy as a whole when making policy decisions. This ensures that the long-run view is taken to ensure continuity and the protection of employment. Given these sorts of commitments, and its involvement in the policy process, labour is supportive of policy decisions. The "*de facto*" incomes policy has allowed the government to pursue flexible economic policies, which have included both a positive fiscal policy (to encourage investment) and a "hard currency/tight money" policy (to keep exports competitive and wage gains "real"). In this context, labour has moderated its wage demands precisely because of its confidence that government policies will result in high investment, export competitiveness, and stable prices.[21]

In Japan, a small, cohesive state has intervened selectively only in critical policy areas. Given governments' track record, business has accepted government leadership in these areas. The Ministry of International Trade and Industry (MITI) is the focal point of government involvement in the economy, its major powers not being statutory but rather confidence-building through its institutional networking and resources via the Japan Development Bank, the Export-Import Bank, and the Fiscal and Investment Loan Plan (FILP). The financial system has linked the government intimately to business. In broad terms, banks overloan to industry, the Bank of Japan overloans to the banks, and the government feeds the Bank of Japan. The government uses this leverage to encourage investment in certain sectors and areas. The absence of short-term stockholder pressure allows firms to look to the long term.[22]

Each of these countries has encouraged the development of some unique institutional dimension or condition that has given coherence to the policy (the examination of these and other countries indicates that there is no *one* route to follow to attain full employment).[23] This coherence has allowed each country to pursue the employment objective

with a capacity to produce effective policy. These dimensions or conditions have linked the state with society, politics with the economy, and macro and micro issues, to improve the chances that public policies will turn out to be effective and legitimate. The well-developed labour movement and its organization arm (LO) in Sweden, and Austria's system of Social Partnership have offered concrete, personal links between political processes and policies and social conditions. Indeed, Sweden's solidaristic wage policy or Austria's hard-currency policy would not have been developed and implemented in the absence of these linkage institutions and processes. The fact that they ensured that labour (and business) could itself "deliver" the goods allowed governments to be flexible and confident in devising creative policy. In Japan, this link has been provided by the public bureaucracy and in Germany, by the banking system in general and the Bundesbank in particular. In Japan, the corporate sector has a particularly unique character and purpose. The large corporations offer "employment for life" which, in conjunction with enterprise unions and the seniority wage system, sees labour arrangements within corporations act as a kind of surrogate "labour market." Workers do not fear (to the same extent as elsewhere) that technological change will make their jobs obsolete. Rather, they support change and will either be retrained within the firm or transferred to another company which is in need of labour. In particularly bad economic moments, the Japanese government might assist with labour stockpiling and retraining (e.g., the Employment Stabilization Fund and its precursor, the Employment Adjustment Grant). Manpower policy in Japan is thus socially and culturally driven.

In broad terms, these sorts of institutional arrangements and processes have proved to be useful in responding to the unemployment, inflation, and supply issues of the 1970s and 1980s.[24] Given a degree of trust that social objectives – such as employment – have been imbedded in these institutions, governments were able to do things that would not have been possible in their absence. Despite weaker economic growth and challenges to increases in income standards, these countries experienced relatively low rates of strike activity, even as their governments moved to reorganize and stabilize economic conditions. While this is not to suggest that all policies were successful or that these countries experienced no economic difficulties, these countries experienced a much lower unemployment/inflation tradeoff as a result.

In the absence of collaborative processes and a consensual political economic culture, it is highly unlikely that these countries would have been able to pursue the fiscal and monetary policies which they did. On the one hand, some governments were able to continue to pursue expansionary fiscal policies at an inflationary time, because wages and prices were being moderated by other processes. Unemployment pressures were eased because long-term investment prospects were not weakened as much as might have been anticipated. On the other hand, the expectation of continuing high rates of employment and steady growth of income allowed some governments to pursue relatively strict monetary and exchange arrangements. This latter approach was accepted in the expectation that this policy would be useful in ensuring export competitiveness and price stability, without which the consensus on wage and income moderation would have been impossible.

The Austrian experience perhaps best exemplifies how collaborative processes could produce this sort of package of policies.[25] Fiscal policy was persistently expansionary throughout the 1970s, yet its inflationary record was comparable to Switzerland's. This went a considerable distance to ensuring that Austria continued to experience a low level of unemployment. At the same time, prices and wages were being regulated by the collaborative institutions and political economic culture of the Social Partnership, while the "hard currency" policy (tied to the German deutschemark) prevented the impact of inflation while imposing domestic price discipline. This convinced labour that moderate wage gains would be "real" while perpetuating confidence that high employment would continue. Both prices and wages were set countercyclically. Wage moderation was seen by labour to "make sense" in employment, export, and price terms. This confidence, though, was a direct function of the existence of, and confidence in, Austria's collaborative policy institutions. Moreover, the policies would not have worked if the institutions themselves had not had the capacity to realize their economic goals. Given a low rate of unemployment, a comprehensive apprenticeship scheme, early retirement policies, and an emphasis on migration and public sector hoarding of labour, labour market measures have never played a significant role in Austria. Nonetheless, government expenditures rose substantially on mobility and job training. Industries in the public sector were encouraged to avoid layoffs and introduce short time. At the same time, emphasis was given to sustaining the level of investment. Corporate tax levels were kept in check. When spending cuts were introduced in the 1970s, investment promotion schemes were exempted. Over and above the policy of countercyclical investment in the nationalized sectors, investment assistance was given through the European Recovery Program (ERP), the Industrial Bank, and the public banking system. ERP funds were used in assisting one sixth of all industrial investment between 1963 and 1979. A seven-year, 4.5-billion schilling interest subsidy scheme was introduced in 1978.

In Sweden, the government attempted to insulate its country's economy from world conditions by pursuing expansionary policies. The exports decline in 1975 associated with significant wage gains in 1974 created a shared consciousness of the need to moderate wage claims. Tax concessions assisted this process, and wage moderation afterwards allowed the pursuit of expansionary fiscal policy in the late 1970s. The collaborative processes and institutions were also useful in allowing governments to introduce policies which directly shaped business and labour conditions. The solidaristic wage policy had established a process whereby considerable sections of the labour force were transferred out of declining sectors into competitive ones. This process was eased by the actions of labour market institutions and measures. This continued through the 1970s and 1980s, assisted by the labour movement. On the one hand, legislative efforts strengthened the position of labour (namely, the Security of Employment Act, the Promotion of Employment Act, the Act of Joint Regulation in Working Life, and the Protection from Dismissal Act). On the other hand, new policies were introduced to ease the transition from weak to stronger economic times and into the new economic circumstances. Employment subsidies (up to 75 per cent of costs) were granted for in-firm training. Firms were compensated for stock building against the cycle, on condition that they did not decrease their employment levels. Labour market expenditures grew to 4 per cent of GNP in the late 1970s. Employment grew substantially in the public sector. At the same time, a variety of supports was extended to business, including extra depreciation allowances, investment subsidies, stock-building compensation, equity-debt ratio help, incentives for risk capital, R&D assistance, loan guarantees, and rationalization schemes. Industrial assistance comprised 3.6 per cent of GDP in 1978, rising to 5 per cent in 1979. Over twice as much was spent on industrial support as on labour market measures over the 1970s.

This is not to suggest that all of these actions were successfully pursued or effective in impact. The point is that they created a momentum for action and a process of experimentation which, in most cases, allowed the employment objective to remain intact and to be renewed. As Bellemare and Poulin-Simon point out, the challenges presented by post-1974 economic developments did not lead to the abandoning of the employment objective, but rather led to increased efforts to find new ways to realize this goal.[26] While there were specific political constraints on governments' actions, they were of a different character than the Canadian experience. On the one hand, governments had institutions and procedures at hand which had the capacity to neutralize, or at least mitigate, domestic and international market pressures. On the other hand, an informed, experienced populace participated in, or supported, policies which reflected a considerable amount of collaborative effort. The employment objective was not abandoned or sacrificed to reduce inflation, precisely because these institutions retained authority as a result of their perceived capacity to deliver the goods throughout the postwar period. The employment objective could not have been dropped – without a transformation or indeed an abandonment of these institutions and procedures.

Sweden

Studying full employment in Sweden makes it clear that the engine that propels the system is *political commitment*. There is nothing inherent in the Swedish economy that produces full employment or even low unemployment, especially since the beginning of the 1970s. If not for extraordinary effort and willingness to make full employment a national priority, Swedish unemployment would easily be more than double its rate.[27]

Sweden is perhaps most closely identified with the idea of making a political commitment to full employment. Indeed, its employment commitment has a kind of moral or ideological character to it. Precisely because it has been successful at maintaining unemployment in the 2-3-per-cent range, there are widespread expectations that full employment is a social right. As a result, there is little to no tolerance of unemployment in any strata of society – unemployment is not a partisan or class issue.[28] Indeed, full employment has a different meaning in Sweden than elsewhere. It does not simply mean low unemployment, or the absence of unemployment, it means "work for everyone": full employment is not to be attained by shrinking the supply of labour (for example, by encouraging women to stay at home).[29] Work is seen to have "intrinsic value," as a "means of creating a sense of community."[30]

What is perhaps most striking about Sweden's full-employment commitment is its rejection of the idea that there is an inevitable tradeoff between unemployment and inflation. There has long been a concern in Sweden about the inflationary pressures which develop towards a full-employment situation. This would be disastrous in a trading economy like Sweden's. However, its political commitment to full employment has excluded the policy possibility of combatting inflation through a rise in unemployment. It is in this context that Sweden rejected the straightforward Keynesian approach which was adopted in Canada. It was felt that it was neither desirable nor possible to get to full employment through the use of generalized Keynesian aggregate demand measures, for this policy approach would

not get rid of the most "stubborn" unemployment and it would probably generate inflationary measures. Instead, Sweden adopted what might be termed a "post-Keynesian" approach, which involved far more specific and interventionist measures than Keynesian ones.

The Swedish approach is known as the Rehn-Meidner Model (named after two Swedish economists). It is a supply- as opposed to a demand-oriented approach. In short,

> . . . via active labour market policy, the elasticity of the supply side of the economy shall be improved and the risk of inflationary pressure through a wage-price spiral on the labour market shall be reduced.[31]

There are basically four ingredients to the model:

- In order to maintain market efficiency, the government does not intervene in production or market decisions; the government stays out of wage negotiations.

- With the double aim of ensuring equity and efficient use of resources, a solidaristic wage policy is pursued; that is, wages are set by those attained in the most productive and profitable sectors; the reasoning is that less productive firms should not be "subsidized" by lower wage rates, and that labour should be used most effectively; moreover, this keeps the profit level relatively low, in order to limit the risk of an inflationary demand for labour.

- Inflationary pressures at the full-employment level are inhibited by implicit wage policy contained in the solidaristic wage policy and by the pursuit of relatively tight fiscal policies.

- Extensive labour market mobility and supply policies are pursued that allow the retraining and reallocation of labour; this maximizes productivity, minimizes inflation, and attains full employment.

It is this last element that is most uniquely Swedish and ensures that the other three elements are accepted. Sweden pursues an active, comprehensive, and preventative labour market policy, which is designed to control the supply of and demand for labour. Typically, the government spends about 6-7 per cent of its (very large) budget on labour market measures. These include mobility grants, retraining expenditures, and direct employment measures. The cost of these measures comprises about 3 per cent of GNP and affects 5 per cent of the work force. At any given moment, 1 per cent of the labour market is in training (about 2-3 per cent of the labour market experiences retraining each year). About 15 per cent of the work force comes through Sweden's extensive and comprehensive employment service each year. About 1 per cent of employment is created by supplementing demand (through public-sector projects, youth teams, and so on). In the period 1974-80, it was estimated that these labour market measures diminished the unemployment rate by 3.2 per cent. This intensive concentration on labour supply is affected through the National Labour Market Board (AMS), a tripartite organization comprising 24 county boards. It also offers an employment service with over 200 local offices (private employment services do not exist).[32]

Another intriguing feature of the Swedish approach is the reliance on active as opposed to passive measures. Typically, 90 per cent of labour market expenditures are on training, mobility, employment, and so on. Only the remaining 10 per cent or so is on "passive" measures, such as social security (in 1983-84, this rose to an exceptionally high 25 per cent, then declined). "Our belief in the importance of jobs for everyone in society has led us to allocate resources to active instruments, rather than to cash assistance."[33]

The focus, then, is on active labour market policy. This includes job-placement support, information and guidance, generous job-training and retraining programs and allowances, mobility grants and allowances, and in-plant training. Over and above these labour measures, the government also carries out extensive "advance planning" and job creation, including the creation of investment reserve funds, relief work, measures to influence the timing of employment, stockpiling subsidies, and new recruitment grants, and an array of regional programs. There is also a system of "advance warning," centred on three pieces of legislation. The Security of Employment Act insists that advance warning must be given about impending layoffs and reasonable cause be offered. The Codetermination Act requires that job cuts must be negotiated with the unions. The Promotion of Employment Act ensures that Labour Market Boards are informed in advance of impending layoffs or shut-downs, allowing the government to devise means of avoiding or delaying the change. These latter measures suggest that labour market policies by themselves are no longer seen to be sufficient to generate full employment and that workers are less and less keen to move or change jobs, looking for security of employment instead.[34]

The upshot of all this is that Sweden perpetuates a full-employment situation in which the level of unemployment is typically 2-3 per cent. This is accomplished in the context of a labour participation rate of 83 per cent (85 per cent for men, 80 per cent for women between the ages of 15 and 64). One might have anticipated a very high NAIRU, given

the social welfare system, narrow wage differentials, and high taxes. These factors are in effect neutralized by the other features of the Swedish model.

This is an approach which has been developed and fine-tuned for over four decades. Throughout this experience, there has been extensive experimentation and a continued renewing of the commitment to full employment. Along the way, appropriate institutions and organizations have developed which are committed to the employment goal. The institutions themselves acquired the experience, expertise, and instruments to generate the capacity to realize the employment goal. All social organizations and society at large work in collaboration with these institutions to ensure the success of the policies. Indeed, it is the expectation of continuing success which ensures that social support continues to be forthcoming. The guarantee of full employment (at high standards of living) or of retraining and relocation acts to rationalize the acceptance of high taxes and a tight fiscal policy. The simultaneous pursuit of full employment *and* low inflation would not be possible in the absence of this faith in the institutions and their capacity to deliver the goods. On the other hand, the existence of these institutions and procedures, a history of collaboration and involvement, and a positive track record ensure that the full-employment goal is not pushed off the agenda – regardless of what the economic circumstances are, what economic troubles might exist, or which political party is in power. The full-employment goal in Sweden has been effectively institutionalized.

Canada in Comparison

In general, the Anglo-American democracies have not developed political institutions, procedures, or culture which reflect a full-employment commitment. For example, parliamentary sensibilities that a *liberal* approach to stabilizing economic conditions in Canada was not possible after the war were assuaged by the adoption of a specifically Keynesian employment objective. Short-run macroeconomic management of demand conditions did not require national economic planning, the extension of the state role in the economy, or a transformation in political institutions. Indeed, no new political institutions were to be developed in conjunction with the Keynesian employment objective. The tools appropriate to this commitment were readily designed in existing institutions which continued to be committed to market economic development. Throughout the postwar period, more emphasis was placed on development of "techniques" associated with the objective, with little corresponding institutional change or development of institutional capacity.[35] There was no call given for the creation of participatory machinery for consensus building or articulation of social and economic goals. Parliament would continue to rule supreme, and capital and labour would continue to follow their respective, traditional roles in the marketplace. Save for periodic expressions of a nostalgia for a return to pre-Keynesian days, disagreements about policy centred less on what governments were doing than on how they were doing it (namely, the competence issue). The only policy exception in the first two decades after the war – the Diefenbaker era – brought charges of incompetence and unacceptable politicization of the economy.[36]

In the immediate postwar period, then, the employment/institution tradeoff tilted in the direction of a timid employment commitment (centred on techniques) and the preservation of traditional political and economic institutions and procedures. With the development of inflation, though, came a loss of confidence in the Keynesian design, its techniques, and its objectives.[37] In particular, "The notion of discretionary cyclical fine-tuning became suspect in the wake of new empirical evidence about the lack of an inflation/employment tradeoff."[38] That Keynesianism was ineffective in dealing with inflation was clear; it was clearly ill-designed to do so.[39] On the other hand, it was also seen to be ineffective in dealing with what was increasingly seen to be the importance of structural matters.[40] For example, it was argued in the 1978 budget that the inattention to supply matters in the 1960s and 1970s had created the economic problems of the 1980s.[41]

That Keynesianism lacked efficacy in dealing with inflation and "structural" problems was but one side of the problem. The other was that, in pursuing the employment objective through the Keynesian design, Canadian governments had not been required to build up an institutional or procedural infrastructure that had the *capacity* to deal with problems such as inflation and structural change. Indeed, while in countries such as Sweden the full-employment commitment was constantly renewed through experimentation, institutionalization, and participation, in Canada it was market principles and the philosophy of a limited state which had been renewed.

Canadian governments flirted with long-run, supply-side development actions throughout the postwar period, in response to regional, structural, and international problems. This was particularly the case during the low-growth period of the late 1950s and early 1960s.[42] This rocky experience foreshadowed the ideological and political difficulties which would emerge in the 1970s, whenever Canadian governments moved away from the liberal approach of the Keynesian design. In the face of economic problems such

as inflation and structural unemployment, the effectiveness of the Keynesian approach was questioned. Governments faced new and increasing demands for action to deal with inflation and unemployment. However, they lacked access to the kinds of collaborative political economic mechanisms or the support of a consensual political economic culture to assist them in producing policies which would be both effective and politically acceptable. When governments attempted to introduce new kinds of interventionist programs or institutions, their actions were taken to be illiberal, coercive, and illegitimate. Their actions would then either be blocked or carried out in a half-hearted manner to avoid further political damage.[43] In broad terms, the Canadian response to the problems of inflation and structural unemployment was a frustrating, schizophrenic, and relatively ineffective process, in which governments ultimately backed away from new policy strategies and processes to attain the employment objective and allowed the market to deal with unemployment.

Manpower Policy[44]

This can be seen in two areas, manpower policy and economic planning. As has been seen, the late 1960s and 1970s saw the employment objective intermixed with a variety of structural and supply-side issues. A significant part of the rise in unemployment was seen to have had structural causes. The policy agenda expanded into the area of manpower training, with new policies devised in the attempt to create a better fit between the demand for and supply of labour. Manpower policy had not played a central role on the policy agenda in the immediate postwar period. Up to the late 1950s, there was little to no initiatives in this area.[45]

It was only when the idea of structural unemployment took hold that governments took policy action. Training programs were initiated in the late 1950s and early 1960s, with increased commitment of public funds in this area. In its first Annual Report, the Economic Council of Canada posed this area as the number one priority. In 1964 the Department of Manpower and Immigration was formed. From the Technical and Vocational Training Act through the Local Initiatives Program (LIP), the Local Employment Assistance Program (LEAP), the Company of Young Canadians (CYC), and the Opportunities for Youth (OFY) program, a variety of supply-oriented training programs were produced.[46] But later on in the mid-1970s, the value of these programs came to be questioned. From the ECC's 1976 study, *People and Jobs*, through to the Dodge Task Force Report in 1981, policy momentum built to shift training back to the private sector. This culminated in the focus of policy strategy on the employment tax credit.[47] The upshot of this was that government spending on training remained more or less constant (in real terms) from the early 1970s on.[48] Federal spending in this area has been relatively constant and modest, 2-3 per cent of its annual spending amounting to about 0.25 per cent of GDP. A similar story can be told with regard to direct job creation. Federal expenditures in this area peaked in1972-73 and declined in constant dollar terms thereafter until 1982-83. This was a modest increase relative to the economic problems of the day. Employment and Immigration Canada and its precursors typically have been allocated 4-5 per cent of the government's budget.[49]

Thus the fiscal commitment to the employment objective in the manpower policy area has been relatively modest. There have been a series of programs, policy and departmental changes, but much of this has amounted to "old wine in new bottles." The spending commitments themselves have been restrained and relatively constant, reflecting a rather low policy priority over the last 15 years. Job creation and job training have been seen by governments to be primarily the responsibility of the private sector.[50]

It is instructive in this context to make two comparisons. First, these manpower expenditures are even more modest when compared to expenditures associated with unemployment insurance. Unemployment Insurance expenditures

Table 3-2

Training Programs Expenditures, 1971-84

	Total	Real	Federal spending	GDP
	(Millions)		(Per cent)	
1971-72	328	328	2.2	0.3
1972-73	344	323	2.1	0.3
1973-74	363	313	1.8	0.23
1974-75	401	312	1.5	0.23
1975-76	506	361	1.5	0.25
1976-77	545	360	1.3	0.25
1977-78	570	347	1.2	0.23
1978-79	635	355	1.3	0.23
1979-80	672	343	1.3	0.21
1980-81	770	352	1.2	0.21
1981-82	803	329	1.1	0.21
1982-83	926	351	1.1	0.23
1983-84	1,192	428	1.4	0.26

Source: Based on Statistics Canada, *Canadian Economic Observer, Historical Statistical Supplement*, 1988; Canada Employment and Immigration Commission, *Reports*; House of Commons, *Estimates*.

Table 3-3

Job Creation Expenditures, 1971-85

	Total	Real terms	Federal spending	GDP
	(Millions)		(Per cent)	
1971-72	206	206	1.4	0.2
1972-73	224	210	1.3	0.2
1973-74	111	96	0.6	0.07
1974-75	120	94	0.4	0.07
1975-76	176	126	0.5	0.09
1976-77	200	132	0.5	0.09
1977-78	282	172	0.6	0.11
1978-79	357	199	0.7	0.13
1979-80	382	194	0.7	0.12
1980-81	356	163	0.55	0.1
1981-82	277	114	0.38	0.07
1982-83	379	143	0.45	0.09
1983-84	854	299	1.0	0.18
1984-85	635	212		

SOURCE Based on Canada Employment and Immigration Commission, *Reports*.

Table 3-4

Unemployment Insurance Expenditures, 1974-86

	Total	Federal contribution	Federal spending	GDP
	(Billions)		(Per cent)	
1974	2.1	0.88	3.2	1.4
1975	3.1	1.7	4.9	1.8
1976	3.3	1.36	3.2	1.7
1977	3.9	1.78	4.2	1.8
1978	4.5	2.23	4.7	1.9
1979	3.9	1.29	1.8	1.4
1980	4.3	1.03	1.4	1.4
1981	4.8	0.99	1.2	1.3
1982	8.5	1.76	2.1	2.3
1983	10.1	2.81	3.0	2.5
1984	9.9	2.96	2.8	2.2
1985	10.2	2.89	2.6	2.1
1986	10.4	2.81	2.3	2.1

SOURCE Based on Canada Employment and Immigration Commission, *Reports*; Unemployment Insurance Commission, *Reports*.

have risen to comprise over 2 per cent of GDP. The federal government's contribution has risen steadily, comprising anywhere from 2 to 4 per cent of its budget expenditures. Second, Canada has been spending more on UI than on training, while a country like Sweden was spending five to six times more on active labour market measures than on passive policy such as social security.[51] Thus, in the period when governments were grappling with discovering post-Keynesian employment solutions, they opted to spend money on passive measures like UI rather than on active and interventionist manpower policies.

Planning[52]

Governments began to flirt with the idea of economic planning in the late 1960s and 1970s, in response to structural unemployment and inflation. The policy agenda expanded into a variety of areas, including manpower policy, technological change, and industrial and regional development. Governments created a host of new departments to this end, from Manpower and Immigration and Industry Trade and Commerce in the 1960s to the Ministry of State for Economic and Regional Development (MSERD) in the late 1970s. These departments in turn generated innumerable studies, papers, and policy ideas, reflecting concern about particular, micro and supply-side problems and suggested that these issues be assigned a priority policy position. "Planning" emerged as the suggested approach to stimulate the industrial growth which would provide employment.[53] Because of all the institutional movement and rearrangements, no one institution or department emerged as the forum for all of these efforts, to play the collegial role required to ensure that a new policy approach would be vigorously and effectively pursued. Indeed, the 1970s saw the clash of three different approaches to the idea of planning in Canada, with considerable tension between traditional departments (such as pro-market Finance) and the new, non-Keynesian interventionist-oriented departments.[54]

This was especially noticeable in the area of "industrial strategy," where discussions took a 180-degree turn from planning (Pépin) to incrementalism (Gillespie, Jamieson, and Chrétien). The supply-side budgets of 1972-74 emerged as the market-oriented approach to this issue, while the advent of wage and price controls shelved the issue temporarily in 1975. In a number of policy papers (The Way Ahead, Agenda for Cooperation), the government reflected upon the post-control period and emphasized a market orientation. This led to Enterprise 77 (a survey of industrial conditions and needs) which in turn resulted in 23 sectoral task force reports, a government position paper (Action for Industrial Growth), and a Board of Economic Development Ministers. This process was again interrupted by the post-Bonn summit commitment by the government to a restraint program. Further debate through to 1981 brought another government position paper (Economic

Development for Canada in the 1980s) and an office of Industrial and Regional Benefits.[55]

No consensus or vision emerged in the form of an explicit industrial strategy. Indeed, there was no real consensus about what the government should do.[56] On the one hand, there was continuing concern about economic freedom and initiative: "Prescriptive planning by governments in the realm of industrial development . . . carries the grave risk of rigidity and resource misallocation."[57] What industrial policies did emerge, continued to respect the market and rested on voluntary, incremental inducements.[58] There was also no consensus about the future shape of the Canadian economy or about the government's role in shaping the economy, which resulted in a broad, implicit type of industrial policy.[59] An explicit, detailed, and comprehensive strategy was rejected in favour of a sectorally oriented one.[60]

The government's attempt to deal with the structural component of the rise in unemployment was constrained by two factors: the absence of institutions with the capacity to act in this area and the persistence of the priority given to market values and freedom. The situation was more or less the same with respect to having to deal with the twinned problems of inflation and unemployment. As in the case of manpower policy, planning initiatives to deal with structural unemployment were modest, and the primary responsibility of dealing with this problem would continue to rest with the private sector.

Once confidence diminished in Keynesianism's capacity to deal with inflation, governments experimented with alternative policy approaches. These were seen to be necessary, if inflation was to be contained without deliberately increasing unemployment. On the one hand, the inflation and supply-side issues were linked and supply-side budgets were introduced periodically as anti-inflationary in design (e.g., 1972-74). On the other hand, governments introduced a variety of new institutions and programs. These were designed to restrain what were considered to be excess economic expectations, as well as to build a consensus about economic matters. These actions included the Prices and Incomes Commission (1969-72), voluntary wage and price controls (1974-75), wage and price controls (1975-78), and the "6 and 5" program (1982-83). Very little resulted from these initiatives with regard to consensus building.[61] Tripartitism never got off the ground, voluntary controls were never successful, and no consensus developed about what should be the government's role in the economy. Whenever collaborative arrangements were mooted, it became clear that any diminution of Parliament's authority would be unacceptable.[62] While wage and price controls had some success,[63] the negative reaction to Prime Minister Trudeau's "new order" speech in late 1975 suggested that there was no consensus around their indefinite continuation.

Thus, as Pierre Fournier concludes, ". . . despite recent advances, joint action is still a relatively marginal phenomenon in Canada."[64] Business and labour have had two different "visions" of what collaboration might involve; the latter looking to full employment and redistribution goals which are not on the top of the former's priority list. On the other hand, political culture has loomed large. Even with the postwar Keynesian experience, the Canadian ideological outlook has remained, by and large, individualist, anti-government, and pro-free enterprise. Moreover, business and labour are weak in an organizational sense and lack the capacity to make collaboration work effectively.[65]

It is important in this context to accentuate labour's weakness, relative to the situation in countries such as Sweden, as a way of explaining the failure of collaborative efforts (as well as with respect to the decline of the employment objective). Labour's political leverage was greatest at war's end, at a time of uncertainty and social willingness to experiment and use the state's powers to attain social and economic stability. But in the postwar "settlement," labour gained no power. The Keynesian strategy saw labour make gains in terms of employment and income (especially vis-à-vis social security). But this "distribution" gain was not matched on the "production" side, where business retained exclusive control over investment. Labour remained outside of the processes of investment and public policy decisions. Over the course of the postwar period, labour's political and electoral power did not grow to any great extent. By the end of the 1940s, 30 per cent of the non-agriculture labour force was unionized; it took almost four decades for this figure to reach 40 per cent. Union density in Sweden, for example, is twice as high. Coupled with a fragmented organizational pattern, the labour movement remains weak politically. Hence, labour has not been able to articulate its employment objective with any political thrust and has not been invited into the corridors of economic decision making. Instead, primary economic authority has remained in the marketplace, which has taken on increased responsibility for employment. At the same time, the emphasis on "distribution" or consumption has remained. Programs such as Unemployment Insurance have expanded and been maintained to ease the problem of unemployment. The continued dominance of this passive approach reflects the weak political leverage of labour and its absence from the process of decision making.

In both these areas – anti-inflationary alternatives and structural approaches to unemployment – governments'

actions were at best tentative and half-hearted, and appeared to be unilateral and divisive. After negative reactions or failures, governments have tended to step back and away from these experiments. Indeed, despite the accumulation of institutional changes, programs, and interventions, the legitimacy of the market and the idea of the limited role of government re-emerged. The 1976 Throne Speech provided a robust defence of the market system. The government's reflection on what would happen after economic controls generated a vision of a renewed market dynamic and a limited role for government.[66] Subsequently, government responses to inflationary and supply-side matters have included a monetarist approach to stabilizing economic conditions, the diminishing of the role of government and austerity programs after the Bonn summit, and the confidence building budgets of 1982-83 and after. All of these actions were taken in the full knowledge that unemployment would rise as a result. In general, to the extent that governmental experiments were perceived to be unsuccessful and ineffective, there was a loss of confidence in the ability of governments to solve economic problems. Limits to government action and doubts about its capacity reinforced the tendency to allow market forces to deal with economic problems – including unemployment.

The overall policy process in the "post-Keynesian" period was an inconsistent pattern of application of, and reaction against, different policy and institutional approaches. These approaches and institutions had not been developed and nurtured from 1945 on, given the character of the Keynesian commitment. As a result, when these kinds of institutions and approaches might have proved to be useful, they were not available; and there was little public or governmental experience in using such devices and mechanisms. They were introduced and used in a rushed but half-hearted way. The result was disillusionment with their use and a rapid decline in the legitimacy of government measures. This has reinforced the imbalance in the tradeoff between unemployment and institutional change. The values associated with perpetuating traditional institutions and market approaches have been validated by the policy experiences of both the Keynesian and post-Keynesian eras. As a result, the employment objective has been more or less dropped in Canada – precisely because it was never "institutionalized" as it was in other countries.

The Canada vs. Sweden, or Japan, or Austria comparison is, to a considerable extent, a case of comparing apples with oranges. Unlike these other countries, Canada has a federal political system, is culturally and linguistically diverse, has a strong tradition of liberalism and individualism, is a large country with tremendous regional variations, and does not have a centralized labour movement or concentrated business organizations. Could Canada have overcome this myriad of obstacles which appeared to have constrained the institutionalization of a full-employment commitment?[67]

It is fanciful to imagine that Canada could ever have reproduced in an approximate way the kinds of institutions and processes which have developed in Japan, or Sweden, or Austria. Each of these countries has had idiosyncratic historical and cultural experiences which have shaped the development of their unique institutions and processes. Their dissimilarities in the service of a similar goal suggest that it would be a mistake to imagine that Canada should (never mind could) have tried to imitate them. If Canada were to move in such a direction, it would have to develop its own institutions and procedures. It would be highly speculative to envision what kinds of institutions might have been – or might be – developed (this is a subject which would require another study).[68] Nonetheless, the fact is that these countries *developed* their processes and institutions; they did not come ready-made. Their mechanisms and structures have evolved on the basis of trial-and-error and concerted political leadership and commitment. Governments contributed to the shaping of institutions, processes, and ideas, by leading by example and by offering inducements and incentives to change private-sector thinking and behaviour. They also built on the cultural and social resources which each country had to offer as a resource.

Canadian governments have not proceeded in this way. Canada's postwar Keynesian employment commitment involved a political acceptance and reflection of Canadian realities and traditions. It did not involve moulding or shaping them into a character which could be more amenable to the pursuit of the employment commitment. It might have been possible to experiment with the development of such institutions after World War II, given the mood of uncertainty, emergency, and change. For good or bad, this did not happen. Canada's traditions and social and political features continue to appear to be a constraint on, rather than a resource for, the development of collegial institutions devoted to the realization of full employment. As this section has indicated, political initiatives to develop collegial approaches and non-market institutions would require great political leadership, skill, and perseverance.

4 Observations and Implications

In this section, the main findings of this study will be reviewed:

- the Keynesian character of the Canadian employment commitment had the long-term consequence of constraining the capacity of Canadian governments to realize the employment objective;

- the Canadian employment commitment was timid and was not pursued with any vigour;

- relative to other countries' experience, Canada failed to institutionalize or renew its employment commitment;

- unemployment lost its priority place on the policy agenda as a result of changes in its conceptualization and the rise of inflation; both of these developments made unemployment "tolerable";

- Canada has tended to use passive measures such as unemployment insurance to deal with unemployment, rather than active measures such as labour market policy, planning, and collaboration;

- in the tradeoff between unemployment and institutional change, both in its original commitment and in its subsequent actions, Canada was willing to tolerate higher levels of the former in order to limit the latter.

Policy Objectives and Experience and the Employment Objective

Policy reactions to the rise in unemployment in the 1970s and 1980s have been shaped by the character of the employment objective of 1945 and postwar employment policy experiences. The employment objective set in 1945 was a relatively modest one, given the compromise made between a full-employment target and the perpetuation of liberal democratic institutions. The realization of this restrained objective focused on the application of technique as opposed to political, institutional, or cultural change. With the acceptance of the notion of non-cyclical unemployment, however, the perception of the efficacy of these techniques was weakened, as well as the employment objective itself. Governments looked tentatively and unsuccessfully to new types of policy measures to deal with structural unemployment. Inflation was the straw that broke the camel's back; a wide consensus emerged that there was an inflationary bias at (ever-decreasing) levels of employment, and this was eventually considered to be too high a price to pay.

There then developed in the 1970s a profound sense of policy failure, if not hopelessness, which resulted in a crisis of policy confidence and a loss of faith in policy tools. The perceived ineffectiveness of non-Keynesian structural measures effectively de-legitimized an extension of the state role in dealing with unemployment. The overwhelming reality of persistent and steadily rising inflation confirmed, for many, the inevitability of this "cost" in the pursuit of the employment objective and damned the techniques and approaches associated with the postwar experience.

The postwar policy experience effectively weakened the legitimacy and attractiveness of the employment objective. If the 1945 commitment had been moderate, the post-1970s commitment became even weaker, and the idea of unemployment appears to have much less political and policy resonance than it did four decades ago. The "inevitability" of unemployment rests on the view that policy responses to unemployment are, by and large, futile. The relatively brisk historical transformation in the character of the employment objective relates both to the perception of failure and costs, as well as to the nature of the postwar policy experience. The employment objective was not institutionalized in any real sense, and its application did not change Canadians' political or cultural experiences nor contribute to the evolution of new institutions dedicated to the employment objective. This explains, to a degree, why unemployment and diminutions of social security could be talked about out loud and indeed effected – in ways that were not possible in some of the other countries that have been examined. When inflation and structural unemployment appeared as policy challenges, there were no institutions or approaches having been developed that had the capacity to deal with these problems effectively. There appeared to be two options open to policy makers. They could propose more government intervention or a return to classical market approaches. The former option was not particularly legitimate (given the absence of cultural and institutional development) nor politically attractive (given policy failures

in the 1970s and popular reaction against "big" government). It is thus possible to comprehend why the latter strategy was chosen and the employment issue sent back to the market.

The Impact of Inflation on the Concept of Unemployment

The inflationary experience looms large in the changed conceptualization about, and policy approach to, unemployment. Indeed, it played precisely the same policy role that unemployment played in the 1930s. The loss of confidence in policy tools – particularly the Keynesian ones – was the direct result of the persistence of inflation from the late 1960s through the 1970s. The inflationary experience undermined conventional wisdom, and its persistence and acceleration led to a sense of crisis. It is in such moments that qualitative changes in policy orientation have evolved. Crises lead to ideological, conceptual, and policy ruptures. Unemployment in the 1930s forced governments and societies to "think the unthinkable," and much of the postwar policy experience was shaped by this depression experience. This impact was more or less neutralized by the inflationary experience – which has generated a different sort of policy vision and set of policy priorities. Indeed, it has "turned things upside down."

While the concept of unemployment underwent a variety of conceptual shifts over the postwar period, the inflationary experience transformed the meaning of unemployment and attitudes towards it. In the 1940s and 1950s, unemployment was seen to be related to macro/cyclical changes, and reactions to it centred on bolstering aggregate demand. In the late 1950s and 1960s, unemployment was seen to relate to technological and structural changes, and reactions to it focused on micro and structural policies. The two visions combined in the early 1970s, associated with energy and environmental problems. But from the mid-1970s on, there was a growing acceptance that inflation itself caused unemployment – in a variety of ways. On the one hand, higher than world averages of inflation were to result in a loss of export competitiveness. On the other hand, interventionist policies were increasingly seen to be inflationary, as well as a source in the decline in efficiency and productivity. Subsequent responses to unemployment have centred on reducing the deficit, curbing inflation, and becoming internationally competitive. All of these measures suggested that to reduce unemployment over the long term, a short-to-medium-term tolerance of, or increase in, the level of unemployment was required. Substantial portions of unemployment were no longer conceptualized as being "wasted" resources but, rather, were seen as "necessary" and potentially productive.

Social Security and the Concept of Unemployment

This is not to suggest that a "return to the 1930s" has been effected. While unemployment levels rose to double digits in the early 1980s, there certainly was no threat of revolution. While numerous groups articulated a profound moral concern for the unemployed,[1] the absence of a sense of crisis was striking as was the absence of a development of "non capitalist" criticisms and alternatives.[2] This suggested to many that the social security system – particularly unemployment insurance – was working as a social shock absorber. This was interpreted politically in two different ways. Many concluded that unemployment was not the hardship which it had been in the 1930s. Its character changed, this made the elimination of unemployment a less compelling policy issue: "Unemployment insurance, in fostering the belief that the unemployed suffer only a small financial loss, has removed the incentive to find alternative anti-inflationary policies more surely than it has removed the incentive to work."[3] On the other hand, this phenomenon suggested that the concept of unemployment had become less meaningful, as unemployment insurance was an option equivalent to being employed. The concept of unemployment thus lost a substantial part of its meaning. The unemployment rate was seen by many to be misleading and of declining use as a policy guide.

The discussion of the "new" unemployment and the decline in hardship associated with unemployment has been explored through an elaborate set of theoretical models, dealing with duration of employment, levels of job vacancies, searching for work, job information, and so on. All of this has had the effect of "re-personalizing" the notion of unemployment. Whereas unemployment was considered in the 1940s to be a macro and structural matter calling for state intervention, by the 1980s it had been transformed into a personal and micro matter to be resolved in the market.

The Employment Objective and Tradeoffs

It is now widely acknowledged that there has been a substantial proliferation in economic policy goals over the postwar period. The burdening or "overloading" of the political agenda became an issue in itself, as it was seen to be a threat to liberal democratic government. Whatever the merits of this (essentially ideological) argument, the fact is

that large numbers of people consider each of these policy goals to be legitimate. Economic policy making, then, has become as much an art as a science, as policy makers juggle and attempt to satisfy multiple and competing goals. This study suggests, though, that the notion of policy goals – and the tradeoff between and among them – has been presented too narrowly and unimaginatively.

Is Unemployment "Social" or "Economic"?

In the first instance, there is a large policy tradeoff which can be considered once different concepts of unemployment have been confronted and evaluated. The postwar experience in Canada and elsewhere suggests that there are two broad ways of looking at unemployment. One can see it as an economic problem – a waste of economic resources – or as a social problem – what to do with people who are not working. The latter takes a substantial level of unemployment as existing for demographic, structural, technological, or social reasons. A non-Keynesian conceptualization of unemployment suggests that Keynesian or, indeed, any employment inducements will be futile. Within this paradigm, then, the policy tradeoff is clear: the unemployment can be sustained through social security, or unemployment can be diminished by lowering and eliminating social security and other measures. To put it another way, one accepts the existing NAIRU as a given and perpetuates/improves social measures, or one moves to lower NAIRU by policies of the opposite sort.

However, if one sees that the substantial part of this unemployment can be policy-eliminated, if one looks at unemployment in economic terms, this tradeoff is conceptualized differently. The unemployment could be tolerated – given other objectives – or else, policies could be initiated to increase and sustain employment. Underlying each approach are two different visions of full employment. One sees it as a condition in which anyone who wants a job can find one; the other sees full employment as the level of employment consistent with the natural rate of employment.

One can synthesize these two approaches as follows. There is a tradeoff between a "social security" approach to unemployment and an "employment" approach to unemployment. The former sees unemployment in NAIRU terms, the latter, in "rights" terms. Generally speaking, the former can be called the "Dutch" approach, with generous economic guarantees. The latter can be called the "Swedish" approach, guaranteeing employment rather than income. This may reflect different historical and cultural backgrounds. The Canadian experience has been much closer to the "Dutch" model than to the "Swedish" one.

The Institutional Tradeoff

This reconceptualization of tradeoffs is, perhaps, even more important and compelling when looking at the unemployment/inflation tradeoff. This has been posed in far too narrow terms in Canada. It ought to be considered as one between unemployment and institutional change. It is mundane to say simply that there is an inflationary bias at high levels of employment. The policy issue is whether this is accepted as a "given" or a non-negotiable constraint. There are alternatives to this dichotomy, though, as the comparative examination illustrated.

Throughout the postwar experience, Canadian governments have introduced structural, micro policies with the purpose of eliminating bottlenecks, creating a better match between supply and demand in the labour market, improving productivity, and so on. These actions were intended to alter or reduce the unemployment/inflation tradeoff. In countries such as Sweden, these types of policies act as a kind of surrogate anti-inflation policy. Similarly, Canadian governments have toyed with, and at times used, the idea of controls to limit inflation at high levels of employment. Indeed, it could be argued that a permanent system of controls of some sort is the only way to avoid the unemployment consequences of an anti-inflationary policy – particularly in Canada where organized labour is weak.

The unemployment/inflation tradeoff is essentially a tradeoff between unemployment and institutional change.[4] Assuming that society considers permanently high inflation to be unacceptable, a commitment to the employment objective necessarily entails some sort of institutional changes. These might be in the form of an array of labour market policies, industrial designs, distribution and employment guidelines, income and price controls, or control of some ingredient in the economic equation as was examined in Chapter 3. Whatever the set, they must simultaneously have the *capacity* to limit inflation at high employment and the *authority* to sustain employment when other objectives falter. This would necessitate some sort of extension of the government role in the economy, as well as the development of collaborative and participatory procedures and institutions involving business and labour.

This tradeoff is, in the last analysis, operationalized by the values which policy makers might associate with the "freedom" and "efficiency" of the market and a limited role for government. It is clear, then, that to discuss the concept of unemployment is to raise the larger issue of the role of the government in the economy – and this is a broad ideological question. To think about unemployment necessarily involves thinking about how to deal with unemployment.

One cannot separate means and ends, and one has to consider simultaneously the implications of any employment policy.

To reiterate, there is a tradeoff between unemployment (and varying degrees of social security) and institutional change (in the direction of full employment). It is not clear how stable this tradeoff might be. For example, a long-term tolerance for unemployment would possibly create a permanent cohort of social security recipients, and a tension between the employed (who support them) and the unemployed (who might resent those with jobs). Indeed, a long-term experience on this point in the tradeoff might create the conditions or demands to alter the terms accepted in the tradeoff. Similarly, the acceptance of a high-level NAIRU cannot be assumed over the long term.

The Forget Report noted that many observers "called for a full employment policy . . . although few were prepared to state what this meant or how it could be achieved."[5] This study suggests that a full-employment commitment is a matter of political and ideological will. This may not exist in Canada, given the weakness of organized labour and the recent ideological drift back to an earlier form of liberalism.

However, the Japanese have pursued a high employment policy, even given the weaknesses of organized labour in Japan. And the Swedes have made a political commitment to full employment while simultaneously accepting the logic of the international market. At the end, this appears to be very much a matter of political will. Even given the free-trade agreement with the United States, there is no logical reason why a Canadian government could not commit itself simultaneously to a full-employment commitment. If free trade turns out to be as good for the economy as anticipated, it is likely that the North American market will generate close to full employment, and such a commitment would have but marginal implications. On the other hand, given anticipated dislocations and restructuring, there may very well be a real need for extensive retraining and relocation. If a government were to make a political commitment to full employment, the following is absolutely clear:

- it is unlikely that the market by itself will produce full employment in Canada along the lines attained in Sweden or Japan;
- Keynesian measures by themselves cannot produce full employment and/or stable prices;
- governments will have to devise employment and income measures and procedures that are somewhat interventionist;
- in order that these measures be effective and be accepted as legitimate, they must be devised and/or approved by collaborative bodies at the national and regional levels and include representatives of business and labour;
- in order that business and labour have the capacity to participate in collaborative processes, the government must encourage or assist their organization into coherent bodies;
- passive measures, such as unemployment insurance, should be de-emphasized in favour of active measures;
- any full-employment objective made by the government must be made for the "long haul," in order that it be credible and create the requisite social expectations; the commitment must thus be made in both legislative and institutional terms.

The historical experiences of Canada and countries such as Sweden suggest that a full-employment commitment cannot be effective or realized unless it is institutionalized. It appears that Canada faces a number of obstacles which constrain this kind of institutionalization (e.g., federalism, liberal political culture, regionalism, weak business, and labour organizations). This is not to suggest that such institutionalization is not possible. It may be the case that full-employment policy must be substantially devolved to the provincial level, where a greater degree of political community (than at the national level) might provide the cultural and consensual basis for such a policy.[6] The ultimate policy reality is that this kind of approach to the employment objective must be engineered in a politically sustained way. Canadians must be aware of the nature of this policy choice. They can accept that full employment will entail that level of employment which is consistent with the natural rate of unemployment; this will allow the perpetuation of the political economic status quo but will generate periodic bouts of unemployment. Or, they can choose to pursue a situation in which anyone who wishes to find a job can find one; but this will require changes in political institutional arrangements and processes.

Notes

Chapter 1

1 Much of this section, as well as subsequent historical sections, is derived from R. M. Campbell, *Grand Illusions: The Politics of the Keynesian Experience in Canada, 1945-75* (Peterborough: Broadview Press, 1987). On the process leading up to the 1945 White Paper on Employment and Income, see Chapters 1 and 2. For a similar historical treatment, see D. Bellemare and L. Poulin-Simon, *Le défi du plein emploi : Un nouveau regard économique* (Montreal: Éditions Saint-Martin, 1986), pp. 100-10.

2 Bellemare and Poulin-Simon, *Le défi du plein emploi*, p. 17.

3 Committee on Reconstruction, *Memorandum*, Ottawa, pp. 12224, 7; W. A. Mackintosh, "The White Paper on Employment and Income in its 1945 setting," in *Canadian Economic Policy since the War*, ed. S. F. Kaliski (Ottawa: Canada Trade Committee, 1965), p. 13; J. L. Granatstein, *Canada's War: The Politics of the Mackenzie King Government* (Toronto: Oxford University Press, 1975), p. 251; M. Cohen, "Review of machinery of economic control," Committee on Reconstruction, *Memorandum*, pp. 12823 and 35.

4 President of the Maclean-Hunter Publishing Co., cited in the House of Commons, *Debates*, 1943. p. 795.

5 Cohen, "Review of machinery of economic control," pp. 43-44.

6 In September 1945, the CCF was supported by 29 per cent of the population, followed by the Liberals and the Conservatives with 28 per cent each. J. M. Beck, *Pendulum of Power* (Scarborough: Prentice-Hall, 1968), pp. 243-44.

7 J. L. Granatstein, *The Politics of Survival: The Conservative Party of Canada, 1939-45* (Toronto: University of Toronto Press, 1960), pp. 69 and 129; J. W. Pickersgill, *The Mackenzie King Record* (Toronto: University of Toronto Press, 1960), volume 1, p. 643 and volume 2, p. 22.

8 R. Whitaker, *The Government Party* (Toronto: University of Toronto Press, 1977), pp. 141 and 138; J. English, "Canada's road to war," *Journal of Canadian Studies* 16, no. 30:102-03.

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10 Department of Reconstruction, *Employment and Income with Special Reference to the Initial Period of Reconstruction* (Ottawa: Queen's Printer 1945), pp. 1 and 23; hereafter referred to as the White Paper. Dominion-Provincial Conference on Reconstruction, *Proposals of the Government of Canada*, Ottawa, 1945, p. 2; hereafter referred to as the Green Book.

11 House of Commons, *Debates*, 1943, p. 2. Emphasis added.

12 R. Bothwell and W. Kilbourn, *C. D. Howe: A Biography* (Toronto: McLelland and Stewart, 1979), p. 164.

13 White Paper, pp. 1 and 23.

14 White Paper, p. 4.

15 White Paper, pp. 14, 9, 16, and 11; Green Book, p. 7.

16 White Paper, p. 11; Green Book, p. 21; House of Commons, *Debates*, 1945, p. 21.

17 White Paper, pp. 7 and 8; J. L. Granatstein, *The Ottawa Men* (Toronto: Oxford University Press, 1982), p. 139 and following pages.

18 White Paper, p. 13.

19 Green Book, p. 8.

20 White Paper, p. 3.

21 G. B. Doern, *The Politics of Economic Policy* (Toronto: University of Toronto Press, 1985), p. 34. See also Employment and Immigration Canada, *Labour Market Development in the 1980s*: ". . . a specific full employment goal has never been explicitly accepted by the government" (Ottawa: Supply and Services Canada, 1981) pp. 3 and 18. Hereafter referred to as the Dodge Report.

22 Bellemare and Poulin-Simon, pp. 64-66 and 112. For their distinction between "liberal" and "centralist" Keynesians, see p. 64. For a similar discussion, see R. Campbell, "Post-Keynesian politics in a post-Schumpeterian world," *Canadian Journal of Political and Social Theory* 8, nos. 1 and 2 (Winter/Spring 1984).

23 D. H. Merry and G. R. Bruno, "Full employment: The British, Canadian and Australian White Papers," *Economic Record* 31 (1945).

24 Granatstein, *The Ottawa Men*, p. 167.

25 D. Coombes, *Representative Government and Economic Power* (London: Heinemann, 1982), p. 34.

26 R. Phidd and G. B. Doern, *The Politics and Management of Economic Policy* (Toronto: Macmillan, 1978), pp. 159-64.

27 Much of this section is derived from Campbell, *Grand Illusions*, Chapters 3-7. See also Bellemare and Poulin-Simon, Part I, Chapters 3, 4, and 5.

28 Sustained full employment by this standard could be said to have existed in 1946-53, 1956, and 1965-67.

29 Bellemare and Poulin-Simon, pp. 127-31.

30 Campbell, *Grand Illusions*, Chapter 8.

31 House of Commons, *Debates*, 1950, p. 2.

32 House of Commons, *Debates*, 1950, pp. 52 and 58.

33 House of Commons, *Debates*, 1950, pp. 1207-09, 2155, 3846, 416, and 82-84; 1949, pp. 1435 and 3185; 1946, p. 114.

34 House of Commons, *Debates*, 1951 (first session), p. 4164; 1950, pp. 54-60.

35 House of Commons, *Debates*, 1950, p. 57. Emphasis added.

36 House of Commons, *Debates*, 1955, p. 3.

37 House of Commons, *Debates*, 1953-54, pp. 1407, 2086, and 2104-05.

38 House of Commons, *Debates*, 1953-54, pp. 5, 440 and following pages, 1447, 1613, 4768, 2104, 3226, 2026, and 3725-27; 1955, pp. 3, 2721, 2728-30, and 1416.

39 House of Commons, *Debates*, 1957-58, pp. 3359-61.

40 Bellemare and Poulin-Simon, pp. 125-27.

41 House of Commons, *Debates*, 1958, p. 1240; 1959, pp. 2404 and 2408; 1960, pp. 2602 and 2609. The cyclically adjusted budget balance was $178 million in 1960 and $206 million in 1961. See Department of Finance, *Economic Review*, Ottawa, 1984.

42 House of Commons, *Debates*, 1960-61, p. 2.

43 R. Bothwell et al., *Canada since 1945* (Toronto: University of Toronto Press, 1981), pp. 218-19 and 313.

44 Bank of Canada, *Report*, 1959, p. 14; Economic Council of Canada, *Report*, 1965, pp. 8-9; Senate, Special Committee on Manpower and Employment, *Report*, 1961, p. 50; Royal Commission on Banking and Finance, *Report*, 1963, p. 410.

45 House of Commons, *Debates*, 1960-61, p. 41.

46 Bellemare and Poulin-Simon, p. 122.

47 Bellemare and Poulin-Simon, pp. 122-24.

48 L. Muszynski, "The politics of labour market policy," in *The Politics of Economic Policy*, G. B. Doern (Toronto: University of Toronto Press), p. 259 and following pages. See also Bellemare and Poulin-Simon, Part I, Chapters 4 and 5.

49 R. M. Campbell, "The Diefenbaker years revisited," *Journal of Canadian Studies* 18, no. 2 (Summer 1983).

50 House of Commons, *Debates*, 1963, pp. 3 and 997.

51 Economic Council of Canada, Annual Review, 1964, pp. 37-38. All references to this publication hereafter referred to as ECC (year).

52 Campbell, *Grand Illusions*, pp. 143-49; Bellemare and Poulin-Simon, Part I, Chapter 5.

53 House of Commons, *Debates*, 1963, pp. 997, 999-1001, and 1007-08.

54 House of Commons, *Debates*, 1964, pp. 969, 971-72, 976, 980, and 982.

55 House of Commons, *Debates*, 1968, pp. 1670-79, 1603-04, 1691, and 1693. The budget balance (National Accounts basis) was $11 million in 1968, –$14 million cyclically adjusted.

56 Bank of Canada, *Report*, 1969, p. 6; 1970, pp. 10-13.

57 House of Commons, *Debates*, 1969, pp. 9413-14, 1917, 9419-20, and 9424.

58 House of Commons, *Debates*, 1973, pp. 1428, 1430, 1433, and 1438.

59 House of Commons, *Debates*, 1974, p. 1421.

60 House of Commons, *Debates*, 1974, pp. 2076 and 2078-80.

61 See D. Purvis and C. Smith, "Fiscal policy in Canada 1963-1984," in *Fiscal and Monetary Policy*, J. Sargent (Toronto: University of Toronto Press, 1986), p. 34.

62 Bellemare and Poulin-Simon, pp. 192 and 213.

63 House of Commons, *Debates*, 1975, pp. 7020, 7024-26, and 7028-29.

64 House of Commons, *Debates*, 1976, pp. 13283 and 13826-27.

65 Muszynski, "The politics of labour market policy," pp. 250-59.

66 P. Fortin, in *Unemployment: International Perspectives*, M. Gunderson et al. (Toronto: University of Toronto Press, 1987), p. 24 and following pages; M. Lamontagne, *Business Cycles in Canada* (Toronto: Canadian Institute for Economic Policy, 1984), pp. 82-86.

67 C. L. Barber and J.C.P. McCallum, *Unemployment and Inflation: The Canadian Experience* (Toronto: University of Toronto Press, 1980), p. 1; S. F. Kaliski, "Accounting for unemployment: A labour market perspective," *Canadian Journal of Economics* 20, no. 4 (November 1987):667; Purvis and Smith, "Fiscal policy in Canada 1963-1984," p. 32.

68 Fortin, *Unemployment: International Perspectives*.

69 J. Tobin, in *Unemployment: International Perspectives*, Gunderson et al., p. 12; Lamontagne, *Business Cycles in Canada*, pp. 87-89.

70 House of Commons, *Debates*, 1979, p. 6.

71 House of Commons, *Debates*, pp. 2257-60.

72 House of Commons, *Debates*, 1980, p. 4184 and following pages.

73 Dodge Report, pp. 15 and 18.

74 House of Commons, *Debates*, 1981, pp. 12721-22.

75 House of Commons, *Debates*, 1982, p. 18876.

76 Bank of Canada, *Report*, 1983, p. 7.

77 House of Commons, *Debates*, 1984, p. 6.

78 House of Commons, *Debates*, 1985, pp. 5012-14 and 5021.

79 House of Commons, *Debates*, 1986, pp. 10979-81 and 10988.

80 Royal Commission on the Economic Union and Development Prospects for Canada, *Report* (Ottawa: Supply and Services Canada, 1985), volume 3, pp. 432-35. Hereafter referred to as the Macdonald Commission.

81 Commission of Inquiry on Unemployment Insurance, *Report* (Ottawa: Employment and Immigration Canada, 1986), p. 65. Hereafter referred to as the Forget Report.

Chapter 2

1 K. Farrall, "Theories, concepts and the art of measurement: Economic theories relationship to the Labour Force Survey," *Notes on Labour Statistics 1973*, Statistics Canada, cat. 72-207 (March 1975), pp. 20-28.

2 Bellemare and Poulin-Simon, pp. 192 and 213.

3 Bellemare and Poulin-Simon, pp. 213-14.

4 Bellemare and Poulin-Simon, p. 20.

5 J. A. Garraty, *Unemployment in History* (New York: Harper and Row, 1978), pp. 4-5.

6 Garraty, *Unemployment in History*, pp. 4-5; Farrall, "Theories, concepts and the art of measurement," pp. 20-22; L. Osberg, "The disappearance of involuntary unemployment," *Journal of Economic Issues* 22, no. 3 (September 1988):707-10.

7 Farrall, "Theories, concepts and the art of measurement," pp. 20-22.

8 Campbell, *Grand Illusions*, Chapter 2.

9 Forget Commission, p. 13.

10 Bellemare and Poulin-Simon, pp. 122-25; Part I, Chapter 5; p. 193 and following pages.

11 Farrall, "Theories, concepts and the art of measurement," p. 22.

12 Bellemare and Poulin-Simon, Part I, Chapter 5.

13 ECC, 1964, pp. 37-39; 1965, pp. 31-33, 179-84; 1971, pp. 89-95; 1976, p. 3.

14 Fortin, *Unemployment: International Perspectives*.

15 Economic Council of Canada, *In Short Supply: Jobs and Skills in the 1980s* (Ottawa: Supply and Services Canada, 1982), pp. 1, 3, 12-13, 47, and 60; see also, A. Hasan and P. de Broucker, *Unemployment, Employment and Non-Participation in Canadian Labour Markets* (Ottawa: Supply and Services Canada, 1985), p. 90.

16 Macdonald Commission, volume 2, p. 205.

17 Forget Report, pp. 32-36 and 75.

18 Data based on Statistics Canada, *Historical Statistics*, 1987.

19 ECC, 1969, pp. 6-7; 1972, pp. 143-63; 1974, p. 40; 1977, pp. 81-83; 1978, p. 93; Economic Council of Canada, *People and Jobs – A Study of the Canadian Labour Market* (Ottawa: Supply and Services Canada, 1976), p. 5.

20 Department of Finance, *Economic Review*, 1980, p. 20.

21 Macdonald Commission, volume 3, pp. 585-86 and 599; Forget Report, p. 39.

22 ECC, 1967, pp. 2-5; 1977, pp. 81-83.

23 Bellemare and Poulin-Simon, pp. 66, 73, 79, 82, 84, and 87-88.

24 Osberg, "The disappearance of involuntary unemployment," pp. 708-10.

25 L. A. Pal, *State, Class and Bureaucracy: Canadian Unemployment Insurance and Public Policy* (Montreal: McGill-Queen's University Press, 1988), p. 33.

26 Pal, *State, Class and Bureaucracy*, pp. 28, 39, 41, 51, and 70-72.

27 House of Commons, *Debates*, 1973, p. 1430; Bank of Canada, *Report*, 1972, pp. 7-8; ECC, 1973 and 1974.

28 ECC, 1976, pp. 5-23, 25, and 30-31.

29 Dodge Report, pp. 15 and 28; ECC, 1978, pp. 83 and 93; Department of Finance, *Economic Review*, 1980, p. 26.

30 Macdonald Commission, volume 2, pp. 285-86; volume 3, pp. 586-88.

31 J. Struthers, "The '30s: The '80s," *Canadian Forum*, May 1984; O. Ashenfelter, "The withering away of a full employment goal," *Canadian Public Policy* 9, no. 1 (1983):114; R. P. Shaw, "The burden of unemployment in Canada," *Canadian Public Policy* 11, no. 2 (1985).

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36 ECC, 1982, pp. 8-9 and 97; Farrall, "Theories, concepts and the art of measurement."

37 Forget Report, pp. 19 and 36.

38 House of Commons, *Debates*, 1980, p. 4184.

39 Gunderson et al., *Unemployment: International Perspectives*, pp. 1-2 and 47-48.

40 ECC, 1982; Hasan and de Broucker, *Unemployment, Employment and Non-Participation in Canadian Labour Markets*, p. 90; Kaliski, "Accounting for unemployment: A labour market perspective"; Barber and McCallum, *Unemployment and Inflation: The Canadian Experience*.

41 ECC, 1976; Dodge Report, p. 18; ECC, mid-1970s and 1984; T. Siedule and K. Newton, "The unemployment gap in Canada 1961-1978." Discussion Paper 145, Economic Council of Canada, Ottawa, 1979.

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43 Hasan and de Broucker, *Unemployment, Employment and Non-Participation in Canadian Labour Markets*, pp. 1-2; Shaw, "The burden of unemployment in Canada."

44 Bellemare and Poulin-Simon, p. 73 and following pages.

45 Ashenfelter, "The withering away of a full employment goal," pp. 114-15.

46 ECC, 1966, pp. 37-76.

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49 Employment departments, such as CEIC and the Department of Manpower and Immigration, had the following budgetary situation:

	Total spending	Percentage of total federal spending
	(Millions)	
1967-68	421	4.3
1968-69	416	3.8
1969-70	439	3.7
1970-71	570	4.3
1971-72	792	5.3
1972-73	778	4.8
1973-74	1,643	8.2
1974-75	1,683	6.5
1975-76	1,836	5.5
1976-77	2,771	6.4
1977-78	2,650	5.6
1978-79	3,028	6.0
1979-80	3,471	6.4
1980-81	3,586	5.8
1981-82	2,224	3.2
1982-83	3,489	4.3
1983-84	4,866	5.4
1984-85	4,989	4.9
1985-86	4,715	4.6
1986-87	4,870	4.6

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Chapter 4

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